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Washington

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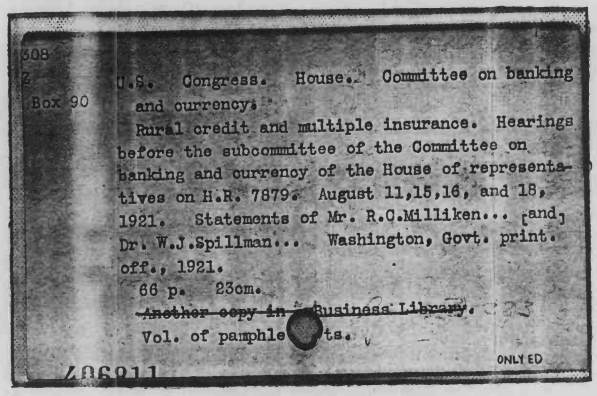
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RURAL CREDIT AND MULTIPLE INSURANCE

HEARINGS

BEFORE THE

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY OF THE HOUSE OF REPRESENTATIVES

ON

H. R. 7879

AUGUST 11, 15, 16, AND 18, 1921

STATEMENTS OF

MR. R. C. MILLIKEN, Monetary Statist, The National Society of Record Associations, Washington, D. C.

DR. W. J. SPILLMAN, Associate Editor, The Farm Journal, Washington, D. C.

WASHINGTON
GOVERNMENT PRINTING OFFICE
1921

COMMITTEE ON BANKING AND CURRENCY.

HOUSE OF REPRESENTATIVES,

SIXTY-SEVENTH CONGRESS, FIRST SESSION.

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SUBCOMMITTEE ON H. R. 7879.

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HF3 Bir 1721

RURAL CREDIT AND MULTIPLE INSURANCE.

SUBCOMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Thursday, August 11, 1921.

The subcommittee met at 10.30 o'clock a. m., Hon. Clarence MacGregor (chairman) presiding, and Hons. James W. Dunbar and Eugene Black, members, in attendance.

The CHAIRMAN. I would like to make this preliminary statement on this matter:

The chairman of the Banking and Currency Committee has appointed this subcommittee to consider generally the subject of rural and agricultural credits. This is a subject of vast importance to the welfare of the Nation. It is the hope of the subcommittee that we may aid in solving the perplexing problems of furnishing adequate financial facilities to millions of our citizens engaged in the basic industry of agriculture.

There are 6,448,366 farms in the United States, with an acreage of nearly 1,000,000,000 acres. The total value of all farm property is $77,925,989,073.

It has been well said that the country can do without the city, but the city can not do without the country. The prosperity of the country is dependent upon the prosperity of the farmer. We must heed to the fact that the tendency for the youth of the country is to leave the farm for the city. The census figures shows that now the larger percentage of the population of the United States is in the cities and towns of the country. Many have left the farm because of the easier life of the city; many have left because they could obtain success with a less expenditure of physical effort. One of the great contributing causes to unsuccessful effort upon the farm is the failure of many to have at hand working capital. A young man could become a merchant in the village and secure credit from the village bank, but no machinery has been provided by which he could secure working capital for running the farm.

The enactment of the Federal farm loan law has been a great step in advance, but it does not go far enough. In most instances that affords a means of securing the farm, but it does not give him anything to work with.

We seek light upon this important proposition and will be pleased to listen to all who can aid in the solution of the problem.

Although this subcommittee is to consider the matter generally, we have before us at the present time H. R. 7879, introduced by Mr. McFadden, the chairman of the Committee on Banking and Currency, entitled "A bill to standardize paper for agricultural production, to establish discounts markets for such paper, to create two necessary fiscal and financial agents for the Government of the United States, and for other purposes."

(The bill, H. R. 7879, referred to and submitted by the chairman, is here printed in full, as follows:)

A BILL To standardize paper for agricultural production, to establish discount markets for such paper, to create two necessary fiscal and financial agents for the Government of the United States, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the short title of this act shall be the rural credit and multiple insurance act, and the two corporations created by this bill shall be referred to, respectively, as follows: The rural credit society shall be referred to as the society and the liberty insurance league shall be referred to as the league.

SEC. 2. That the commissioners, directors, and trustees, respectively, of said two corporations and bodies politic and financial and fiscal agents hereby created shall, by the name of the rural credit society and liberty insurance league, have succession and be able to sue and be sued, implead and be impleaded, in

all the courts of the United States, and each to make and use a common seal, and the same to alter and amend at pleasure.

SEC. 3. That L. D. May, of Granville Center, Bradford County, Pennsylvania; Witt Sears, of Thorp Spring, Hood County, Texas; and ———, of ———, are hereby designated and created commissioners, with power and authority to negotiate, in the manner expressly provided in Article VI of the charter creating said liberty insurance league, with any solvent and well-established life insurance company incorporated under the laws of some one of the several States having approved assets of not less than $400,000,000 for the purpose of inducing one of such companies to accept the terms of the charter creating said liberty insurance league, and agree and bind itself to operate thereunder and be governed solely by the terms and provisions thereof; and said commissioners are further authorized and empowered to organize said rural credit society in the manner expressly provided in Article VIII of the charter creating said rural credit society.

SEC. 4. That one of said financial and fiscal agents, to wit, the said rural credit society, shall operate and be governed solely by the terms of its charter, which shall read as follows:

CHARTER OF THE RURAL CREDIT SOCIETY.

ARTICLE I.

SECTION 1. NAME OF CORPORATION.—The name of the corporation shall be the rural credit society, which is referred to herein as the society.

ARTICLE II.

SECTION 1. NATURE OF BUSINESS.—The nature of the society's business shall be, and it is hereby authorized and empowered, to do and transact a general banking and credit business through its executive, branch, and commune offices, and through such agents, agencies, and auxiliaries as its by-laws may prescribe, to buy and sell, and contract for the purchase and sale of, securities, of moneys of the United States, and of gold bullion, to buy and own in perpetuity such real estate as may be deemed necessary for its executive and branch offices and the same to dispose of at its pleasure, to own and hold for a period not to exceed ten years such real estate as it may acquire through foreclosure proceedings and the same to dispose of in like manner, to act as the fiscal and financial agent for the Government of the United States within the powers conferred upon it in this article and on such terms as may be prescribed by the Secretary of Agriculture and approved by the society's board of directors: *Provided*, That neither the society, its branches, communes, agents, agencies, nor auxiliaries shall issue demand payable printed bank notes, commonly denominated currency: *Provided further*, That the society's communes shall not receive deposits.

ARTICLE III.

SECTION 1. PLACE OF EXECUTIVE OFFICE.—The temporary executive office of the society shall be located by its board of directors at their first meeting, at which place it shall remain for a period of five years, when the board shall establish a permanent executive office by a majority vote: *Provided*, That the board may, by a two-thirds vote, change the location of such office thereafter. Board meetings may be held at such places in the United States as its by-laws may prescribe.

ARTICLE IV.

SECTION 1. CAPITAL.—The capital of the society shall consist of a guaranty fund and the stock of its branches and communes.

PARAGRAPH 1. GUARANTY FUND.—The guaranty fund shall consist of $25,000,000, which shall be furnished and paid in by the Government of the United States.

SUBPARAGRAPH 1. WHEN GOVERNMENT SHALL PAY IN GUARANTY FUND.—When the commissioners have induced such a life insurance company as is described in section 3 of the act creating this charter to accept the said liberty insurance league charter, and the Secretary of Commerce has approved their acts and issued a statement authorizing said league to begin business under such

charter, the Secretary of Commerce shall then draw a voucher on the Treasurer of the United States for $25,000,000, who shall cause such sum to be paid into the treasury of such league, to be held in trust and invested by such league for the use and benefit of the society until the Secretary of Agriculture orders the league to pay the same, principal and interest, into the treasury of the society, less the compensation allowed for the risk and expense for accepting such trust, as is provided in Article X of said liberty insurance league charter.

SUBPAR. 2. SINKING FUND TO RETIRE GUARANTY FUND.—Within three months after the 1st day of January, each year, the society shall cause to be paid into the Treasury of the United States one-tenth of 1 per centum per annum on all loans and discounts made or renewed to its members the preceding year, ending December 31, which payments shall be invested under the direction of the Secretary of the Treasury, for the use and benefit of the sinking fund of said society to retire the guaranty fund and interest thereon; and when the sinking fund, principal and interest, equals the principal paid by the Government, together with simple interest at the rate which the Government has to pay for the money so advanced by it, then this subparagraph shall be of no effect and the society's obligation to the Government on account of the guaranty fund shall be canceled.

SUBPAR. 3. BRANCH STOCK.—Each of the forty-eight branches shall have a capital stock of $50,000, and the stock of each branch shall be fully paid in cash before such branch begins business. Such capital shall be paid by the Liberty Insurance League, and the society shall cause stock certificates to be executed and delivered to the league as evidence of such payment and its ownership of such stock. Such stock shall be nonassessable and nontransferable and paid an annual dividend by the society, if earned, of 6 per centum, which dividend shall be cumulative.

SUBPAR. 4. COMMUNE STOCK.—The stock of the communes shall be subscribed and paid for in cash by the members of the respective communes. Such stock shall be of the par value of $5 each, for which certificates shall be executed and delivered to the subscribing members by the managers of the respective branches. Such stock shall be nontransferable while the subscribing owner is a member of the society: *Provided*, That a member may reduce the amount of his commune stock by complying with the terms of the by-laws and subparagraph 4 of Article V of this charter. The commune stock shall be nonassessable and paid such annual dividend, if earned, as the advisory council of the respective director's district may declare: *Provided further*, That no dividend shall be paid on the commune stock of a director's district until such branch has accumulated a safe surplus in the judgment of the board of directors.

ARTICLE V.

SECTION 1. COMMUNE.—The word "commune" as used in this charter shall denote a voluntary local association of farmers for the purpose of improving their productive credit facilities, and the persons comprising the commune shall be referred to as members.

PARAGRAPH 1. CLASSIFICATION OF MEMBERS.—There shall be two classes of members, voting and nonvoting members. The privilege of voting the election of those to control the corporation shall be exercised by the voting members only.

SUBPAR. 1. HOW TO BECOME A VOTING MEMBER.—To become a voting member, a nonvoting member shall obtain the unanimous vote of the voting members of his commune.

SUBPAR. 2. MINIMUM NUMBER OF VOTING MEMBERS.—Each commune must have at least seven voting members.

SUBPAR. 3. EXPULSION OF A MEMBER.—The voting members of any commune may by a majority vote expel a member.

SUBPAR. 4. VOLUNTARY RESIGNATION OF MEMBERS.—Any member may voluntarily withdraw his membership from his commune at will, to take effect immediately; but a member of a commune of the first and second class shall be personally liable for the payments of the debts contracted by the commune while he is a member thereof and until the 1st day of January next after he ceases to be a member; and the commune stock of a member of any class of commune shall be liable for the payment of the debts contracted by the communes of that director's district, while he was a member and until the 1st day

of January next after he ceases to be a member, which liability shall attach and become binding in the order provided in section 3 of this article.

SEC. 2. CLASSIFICATION OF COMMUNES.—There shall be three classes of communes—first, second, and third class.

PARAGRAPH 1. COMMUNES OF FIRST CLASS.—Communes of the first class shall comprise those situated in States whose laws permit the waiver of homestead and execution exemptions of such members, and the members of which actually execute valid waivers of such exemptions and agree and bind themselves to become jointly and severally liable for each and every credit obligation contracted by the members of their respective communes while they were members and until the 1st day of January next after they cease to be members.

SUBPARAGRAPH 1. CREDIT LIMITATIONS OF THE FIRST CLASS.—The credit of each member of a commune of the first class shall be limited to twenty times his paid-up stock in his commune.

PAR. 2. COMMUNES OF SECOND CLASS.—Communes of the second class shall comprise those situated in States whose laws prohibit the waiver of homestead or execution exemptions, but whose members lawfully agree and bind themselves to become jointly and severally liable for each and every credit obligation contracted or made by the members of their respective communes while they are members thereof and until the 1st day of January next after they cease to be members.

SUBPARAGRAPH 1. CREDIT LIMITATION OF SECOND CLASS.—The credit of each member of a commune of the second class shall be limited to ten times his paid-up stock in his commune.

PAR. 3. COMMUNES OF THIRD CLASS.—Communes of the third class shall comprise those whose members' personal liability shall be unlimited for the credit obligations contracted or made by themselves and for which they become surety, but for the credit obligations of other members their personal liability shall be limited to their unpaid stock subscriptions in their respective communes.

SUBPARAGRAPH 1. CREDIT LIMITATION OF THIRD CLASS.—The credit of each member of a commune of the third class shall be limited to five times his paid-up stock in his commune.

SEC. 3. ORDER IN WHICH LIABILITIES ATTACH.—The order in which liabilities attach shall be as follows: The drawer of a granger or bill of exchange and maker of a promissory note and other credit instruments shall be primarily liable for their payment; next the drawer or maker's surety, if any; next the drawer or maker's commune stock; next the members of the commune of which the drawer or maker is a member, if the commune be of the first or second class; next the surplus of the branch situated in the district in which the drawer or maker's commune is situated; next the stock of all the communes of such district, which liability shall attach to each share of such stock; next the stock of the branch of the district in which the drawer or maker's commune is situated; and finally the guaranty fund: *Provided*, That any loss sustained by a branch other than by the failure of a member to meet his obligation shall be repaired, first, out of the surplus of such branch, and if that be insufficient, then out of the stock of the communes of the district in which such branch is located, and if that be insufficient, then out of the stock of such branch, and finally out of the guaranty fund: *Provided further*, That in no event shall the stock of the communes or branch of one director's district be liable for the debts or defaults of the members, communes, or branch of another director's district.

ARTICLE VI.

SECTION 1. DURATION OF CORPORATION.—The duration of the corporation shall be fifty years, but the Congress hereby retains the right to amend this charter decennially after the twentieth year.

ARTICLE VII.

SECTION 1. CORPORATE POWERS; HOW EXERCISED.—The corporate powers of the society shall be exercised by a board of directors, the members of which shall be elected in the decentralized manner provided in this section of this article, and such officers, agents, and committeemen as the board may elect, except as otherwise expressly provided in this charter. The board shall have power and authority to enact by-laws, rules, and regulations for the society, its branches and communes, their agents and members, not inconsistent with the terms of this charter.

PARAGRAPH 1. CLASSIFICATION OF DIRECTORS.—The classification of directors' districts and the territory comprising each shall be as follows:

First class: First, Alabama; second, Arizona; third, Arkansas; fourth, California; fifth, Colorado; sixth, Connecticut; seventh, Delaware; eighth, Florida; ninth, Georgia; tenth, Idaho; eleventh, Illinois; twelfth, Indiana.

Second class: Thirteenth, Iowa; fourteenth, Kansas; fifteenth, Kentucky; sixteenth, Louisiana; seventeenth, Maine; eighteenth, Maryland and District of Columbia; nineteenth, Massachusetts; twentieth, Michigan; twenty-first, Minnesota; twenty-second, Mississippi; twenty-third, Missouri; twenty-fourth, Montana.

Third class: Twenty-fifth, Nebraska; twenty-sixth, Nevada; twenty-seventh, New Hampshire; twenty-eighth, New Jersey; twenty-ninth, New Mexico; thirtieth, New York; thirty-first, North Carolina; thirty-second, North Dakota; thirty-third, Ohio; thirty-fourth, Oklahoma; thirty-fifth, Oregon; thirty-sixth, Pennsylvania.

Fourth class: Thirty-seventh, Rhode Island; thirty-eighth, South Carolina; thirty-ninth, South Dakota; fortieth, Tennessee; forty-first, Texas; forty-second, Utah; forty-third, Vermont; forty-fourth, Virginia; forty-fifth, Washington; forty-sixth, West Virginia; forty-seventh, Wisconsin; forty-eighth, Wyoming.

PAR. 2. QUORUM.—Each director shall have one vote on the board, and a majority shall constitute a quorum for the transaction of business.

PAR. 3. TERMS OF OFFICE OF DIRECTORS.—The first board of directors shall be divided into four classes in the order provided in paragraph 1 of this section. The term of the first class shall expire on the second Tuesday in January next following; that of the second class one year from that time; that of the third class two years from that time; and that of the fourth class three years from that time, and so on, consecutively, in each and every year thereafter, so that all the directors of one class shall be elected annually thereafter for a term of four years each. All vacancies occurring in the board shall be filled by the advisory council of the respective director's district until the next general election of director for such district.

PAR. 4. QUALIFICATION OF DIRECTORS.—Each director shall be a citizen of the United States and bona fide resident and voting member of a commune of the first or second class and remain such during his term of office.

PAR. 5. MANNER OF ELECTING DIRECTORS.—The directors shall be elected by the ballots of their respective directors' districts, each visor being entitled to cast as many votes as there are members of his commune. Such ballots must be forwarded to the executive office of the society by United States post, inclosed in an official envelope on which the words "Official director's ballot" shall be printed or written in red ink on the address side thereof.

SUBPARAGRAPH 1. BALLOTS AND ENVELOPES—HOW FURNISHED.—It shall be the duty of the secretary, ninety days before the election of a director, to mail one official ballot and envelope to each visor of the district in which such an election is to be held.

SUBPAR. 2. INSPECTORS OF ELECTIONS.—The secretary shall, on the fourth Tuesday in November of each year, in the presence of the auditor or deputy auditor and a censor, open and count the official ballots cast for directors at the election held two weeks previously. Any candidate for director may, at his own expense, appoint, in writing, one representative to be present at such opening and counting, who shall have the privilege to examine each ballot.

PAR. 6. CANDIDATES FOR DIRECTOR.—Each eligible person who desires to become a candidate for director of his district shall notify the secretary four months in advance of such election, and the secretary shall inform such person of the approximate cost in postage and printing necessary to place his name before the visors of his district. If such person, within thirty days after the mailing of such information, make remittance to the secretary to cover such expense, it shall be the further duty of the secretary to cause the name and address of each such candidate to be printed on each ballot sent out by him and mail one of such ballots and official envelopes to each visor of that director's district. The candidate receiving a plurality of the votes cast at such election shall be declared elected. If two candidates tie at any election, then a special election shall be held to decide the contest between them, such special election to be called by the president for such time as he may deem meet.

PAR. 7. ANNUAL ELECTION OF DIRECTORS.—The annual election for the members of the board of directors to fill the places of the outgoing class shall be on the second Tuesday in November of each year, and the newly elected members of

the board shall be inducted into office the second Tuesday in January next following and hold office for a term of four years.

PAR. 8. COMPENSATION OF DIRECTORS.—Each member of the board of directors who attends the annual board or parliamentary session on the first day thereof (the first Tuesday in January of each year) and there remains for three days, shall be paid a salary of $1,000 for the previous fiscal year, ending December 31, together with traveling expenses incurred in attending such session.

SUBPARAGRAPH 1. PENALTY FOR FAILURE OF ATTENDANCE.—Any director who fails to attend two annual board or parliamentary sessions during a single term shall have his office vacated and be rendered ineligible to hold such office thereafter.

PAR. 9. CHAIRMAN OF BOARD.—The board of directors shall elect one of their members chairman, who shall preside at the meetings and sessions of the board and call the board together in extraordinary session by giving each member thirty days' previous notice in writing.

PAR. 10. NONPOLITICAL CONTROL GUARANTEED.—No director shall hold or become a candidate for any elective office under any Government or with any political party during his term of office.

PAR. 11. RECALL OF DIRECTORS AND ADVISORY COUNCILMEN.—The auditor and censors may, when in their judgment the interest of the society or its creditors require it, call a confidence election to recall any member of the board of directors or advisory councils. Three months' previous notice shall be given the person to be recalled, and the reason for initiating such recall set forth in writing and signed by the auditor and a majority of the censors, and a copy thereof mailed to each such person.

SUBPARAGRAPH 1. VOTERS AT CONFIDENCE ELECTIONS.—Each member of a commune situated in the district represented by the director or advisory councilman to be recalled shall be entitled to cast one vote at each confidence election held therein.

SUBPAR. 2. EFFECT OF CONFIDENCE ELECTIONS.—If a majority of the qualified voters at a confidence election vote in favor of the recall of the person voted on, it shall have the effect of removing him from office and disqualifying him from holding such office thereafter.

PAR. 12. ANNUAL ELECTION OF OFFICERS.—The annual election of officers shall be held on Wednesday next following the second Tuesday in January of each year, on which day the board of directors shall elect a president, vice president, secretary, treasurer, one or more censors, members of the executive committee, such number of inspectors as the business may require, and such other officers as the by-laws may prescribe, which officers shall hold office for a term of one year each and until others are elected in their stead.

PAR. 13. PRESIDENT.—The president shall be the chief executive officer of the society and have authority to appoint the managers of the branches, select the depositaries and fiscal and other agents and clerical force of the society, and fix the compensation of each when the same is not fixed by the board of directors. The vice president shall perform the duties of the president during the absence or inability of the latter to serve and do and perform such other duties as the by-laws may prescribe.

PAR. 14. SECRETARY.—The secretary shall attend all board meetings of the directors and executive committee and keep true records of what transpires thereat, prepare all ballots for the election or recall of directors and councilmen, and open and count such ballots in the presence of the auditor or deputy auditor and a censor, as provided in this charter, and do and perform such other duties as the by-laws may prescribe.

PAR. 15. TREASURER.—The treasurer shall be the custodian of the society's securities and funds, under such safeguards as the by-laws may prescribe, hold one of the keys to the securities vault, and perform such other duties as the by-laws may prescribe.

PAR. 16. CENSORS.—The censors shall have power and authority to attend all board meetings of the directors and executive committee, audit and inspect the books, accounts, papers, properties, and transactions of the society, its branches and communes, become the custodian of one of the keys to the securities vault, approve the schedule of compensation of the auditor and deputy auditors, and jointly with the auditor call confidence elections and inspect the ballots for the election of directors and advisory council men, and make annual reports to the Secretary of Agriculture.

SUBPARAGRAPH 1. QUALIFICATION OF CENSORS.—The censors must be, and for five years previous have been, certified public accountants, and they shall be ineligible for reelection.

SUBPAR. 2. NUMBER OF CENSORS.—There shall not be less than one nor more than three censors, the number to be prescribed by the by-laws.

SUBPAR. 3. COMPENSATION OF CENSORS.—Each censor shall be paid a salary, in monthly installments, of $12,000 per annum and traveling expenses incurred while performing his duties.

PAR. 17. EXECUTIVE COMMITTEE.—The executive committee shall be composed of seven voting members of communes of the first or second class. They shall exercise such power and authority as may be delegated to them by the board of directors, which shall not exceed their own power and authority: *Provided*, That any by-law enacted by such committee shall remain in force only until the day next following the next meeting of such board. When the committee enacts a by-law its chairman shall cause a true copy thereof to be mailed to each member of the board. A majority of the members of the executive committee shall constitute a quorum for the transaction of business.

PAR. 18. AUDITORS.—The president of the said Liberty Insurance League shall annually appoint one auditor and such number of deputy auditors as in his judgment the business of the society requires, who shall serve one year each and until others are so appointed in their stead. Such president shall fix the compensation to be paid such appointees by the society and submit a schedule thereof to the censors, which schedule, when approved by the censors, shall become a charge against the society and be paid in monthly installments.

SUBPARAGRAPH 1. AUTHORITY OF AUDITOR AND DEPUTY AUDITORS.—The auditor shall have power and authority to audit the books, accounts, and papers and inspect the securities, properties, and transactions of the society, its branches and communes, attend board meetings, become the custodian of one of the keys to the securities vault, and jointly with the censors call confidence elections to recall directors and advisory councilmen, and inspect all elections, and direct the activities of the deputy auditors and prescribe their duties, who may do and perform any duty imposed on the auditor.

SEC. 2. BRANCHES.—There shall be one branch in each director's district, which shall be under the direction and management of a manager, deputy auditor, advisory council, and such other force as the by-laws may prescribe.

PARAGRAPH 1. MANAGER.—The manager shall be the chief executive officer of the branch of his district and shall observe the by-laws enacted by the board of directors, executive committee, advisory council, and supervisors of the communes of his district.

PAR. 2. DEPUTY AUDITOR.—Each deputy auditor shall do and perform such duties as may be assigned him by the auditor, which shall not exceed the power and authority conferred on the auditor under this charter.

PAR. 3. ADVISORY COUNCIL.—Each branch shall have an advisory council composed of five voting members of communes of the first or second class, who shall be citizens of the United States.

SUBPARGRAPH 1. AUTHORITY OF ADVISORY COUNCIL.—The advisory council shall have power and authority to enact by-laws, rules, and regulations for the branch and communes of their respective districts not inconsistent with the express terms of this charter or the by-laws, rules, and regulations enacted by the board of directors or executive committee.

SUBPAR. 2. ELECTION OF ADVISORY COUNCIL.—The members of the advisory council shall be elected for the same term, at the same time, and in the manner of the election of the director of the respective districts, but by the ballots of the supervisors of the communes of their respective districts, the supervisors voting as a unit and casting as many votes as there are members of their respective communes.

SUBPAR. 3. COMPENSATION OF ADVISORY COUNCIL.—Each member of the advisory council shall receive as a compensation for his service $5 per day and traveling expenses for each day he attends the meetings of such council; but such compensation and traveling expenses shall not exceed $100 during a single year.

SUBPAR. 4. CHAIRMAN.—Each advisory council shall annually elect one of their members as chairman, who shall call meetings of its members.

SUBPAR. 5. QUORUM.—A majority of the members of the advisory council shall constitute a quorum for the transaction of business.

SEC. 3. OFFICERS OF COMMUNES.—The officers of the communes shall consist of a visor, scribe, three or more supervisors, and such visiting and inspection

committees as the supervisors may prescribe by by-law. They shall be elected annually by the voting members of their communes at such time as the board of directors may prescribe, and hold office for a term of one year each and until others are elected in their stead.

PARAGRAPH 1. VISOR.—The visor shall be a voting member of his commune and chief executive officer thereof, and shall do and perform such duties as the by-laws may prescribe.

PAR. 2. SCRIBE.—The scribe shall become the custodian of the blank forms of the commune, attend the meetings of the supervisors, see that the mortgages and other credit instruments executed by the members of the commune are properly recorded and transmitted to the branch, conduct the correspondence for the commune, and do and perform such other duties as the by-laws may prescribe.

PAR. 3. SUPERVISORS.—The supervisors shall consists of not less than three voting members of their communes who are citizens of the United States and shall have power and authority to enact such by-laws, rules, and regulations for their respective communes as are not inconsistent with the terms of this charter or the by-laws, rules, and regulations enacted by the board of directors or executive committee or advisory council of their district: *Provided*, That one copy of each by-law, rule, and regulation enacted by them shall be sent to the branch of the same district and another to the executive office of the society.

SUBPARAGRAPH 1. QUORUM.—A majority of the supervisors shall constitute a quorum for the transaction of business.

SUBPAR. 2. CHAIRMAN.—The supervisors shall elect one of their number as chairman of their body who shall be acting visor in the absence or inability of such officer to act.

PAR. 4. EXPENSE OF COMMUNES.—A correct record of the expenses of managing each commune shall be kept by the scribe and reported annually to the manager. Such expenses shall be paid for in cash by the members of the respective communes, and in no event shall they become a charge against the commune or society.

ARTICLE VIII.

SECTION 1. WHEN SOCIETY IS TO BEGIN BUSINESS.—When the commissioners succeed in indncing such a life insurance company as is referred to in section 3 of the act creating this charter to accept the said liberty insurance league charter they shall proceed in procuring bona fide applications from farmers of integrity, energy, and frugality for the organization of at least twenty communes in not less than six directors' districts and choose suitable persons for president, vice president, secretary, censor, and one director, and five members of the advisory councils of the districts in which such applicants reside, and notify the president of said liberty insurance league to appoint an auditor and as many deputy auditors as they have chosen directors, and the officers so selected, appointed, and chosen shall constitute the first officers of the society. The commissioners shall then report to the Secretary of Agriculture the result of their labors, who shall thereupon call on the said liberty insurance league to pay in the capital of such branches as the commissioners have organized, and such portion of the guaranty fund as in his judgment the immediate requirements of the society demand, and issue a statement declaring the society organized for the transaction of business under this charter.

ARTICLE IX.

SECTION 1. FRANKING PRIVILEGE.—The society shall enjoy the franking privilege of the Government of the United States for the purpose of making inquiries of the credit status of members, and farmers desiring to become members of the society, under such rules and regulations as may be prescribed by the Postmaster General.

PARAGRAPH 1. SECOND-CLASS MAIL MATTER.—The periodical bulletins of the society shall be entered as second-class mail matter at the post office where the society's executive office is located, under such rules and regulations as may be prescribed by the Postmaster General.

ARTICLE X.

SECTION 1. STATEMENTS.—The society shall make such reports to the Department of Agriculture as the Secretary of Agriculture may require.

PARAGRAPH 1. LEGAL PROCESS.—The manager of each district shall be the agent of the society on whom legal process may be served, and the Secretary of Agriculture may require the appointment of such an agent in such districts in which the society has no manager.

ARTICLE XI.

SECTION 1. GENERAL PROVISIONS.—Each credit instrument drawn or made by a member and indorsed or accepted by a commune shall set forth the purpose for which the credit sought is to be used, and if the credit sought through one such credit instrument is to be used for more than one purpose, then each of such purposes shall be itemized and the amount of each stated in plain figures opposite each item: *Provided*, That this proviso shall not apply to credit instruments drawn by the branches on the society.

PARAGRAPH 1. MEANING OF "GRANGER."—The word "granger" used in this charter shall mean a bill of exchange, and if any person, firm, corporation, or association other than this society used such word to designate a credit instrument, the Postmaster General shall be authorized to deny them or either of them the use of the United States mails.

PAR. 2. MEANING OF "FARMER."—The word "farmer" used in this charter shall include horticulturist, vineyardist, orchardist, dairyman. stock raiser, raiser of poultry and bees, truck grower. or grower of any agricultural product.

SEC. 4. SWINDLING DEFINED AND PENALTY PRESCRIBED.—That any person who knowingly makes a false statement of material fact in an application for membership to the society or any of its communes, or any member of the society or its communes who makes such a statement for the purpose of obtaining credit from the society, with the intent in either case to defraud the society, or to deceive any officer of the society, its branches or communes; and every person who with like intent aids or abets any person or member in the violation of this section shall be deemed guilty of a misdemeanor, and shall upon conviction be fined not more than $100 or imprisoned for not more than one year, or both.

SEC. 5. EMBEZZLEMENT DEFINED AND PENALTY PRESCRIBED.—That any president, vice president, secretary, treasurer, auditor, deputy auditor, censor, inspector, director, member of the executive committee, manager, member of an advisory council, visor, acting visor, supervisor, scribe, or agent or clerk of the society, its branches or communes, who embezzles, abstracts, or willfully misappropriates any of the moneys, funds, or credits of the society, or who makes any false entry in any book, report, or statement of the society with intent, in either case, to injure or defraud the society or any company, body politic or corporate, or any firm or individual person, and every person who, with like intent, aids or abets any officer, clerk, or agent in the violation of this section shall be deemed guilty of a misdemeanor and shall, upon conviction, be imprisoned not less than 1 nor more than 10 years.

SEC. 6. LIBERTY INSURANCE LEAGUE CHARTER.—That the fiscal and financial agent for the Government of the United States, or corporation and body politic created by this act and referred to as the liberty insurance league, shall operate under and be governed solely by the terms of its charter, which shall read as follows:

CHARTER OF THE LIBERTY INSURANCE LEAGUE.

ARTICLE I.

SECTION 1. NAME OF CORPORATION.—The name of the corporation shall be the "liberty insurance league," and it shall be referred to herein as the league.

ARTICLE II.

SECTION 1. EXECUTIVE OFFICE.—The temporary executive office of the league shall be established by the commissioners, at which place it shall remain for eleven years from the date of the approval of the act creating this charter, at the expiration of which time the board of trustees shall establish a permanent executive office by a majority vote; but its location may be changed at any time thereafter by a two-thirds vote of the board of trustees.

ARTICLE III.

SECTION 1. NATURE OF BUSINESS.—The nature of the league's business shall be, and it is hereby authorized and empowered, to act as the financial and fiscal agent for the Government of the United States in such manner, for such purposes, and on such terms as may be prescribed by the Secretary of Commerce and approved by the league's board of directors or trustees, to do and transact the business of insurance of every nature whatsoever, to sell indemnity against any and every contingency, to negotiate reinsurances of risks ad companies, receive and execute trusts, make endowments, grant, purchase, and dispose of annuities and property. It shall operate such businesses or any of them through managers and agents in the several States, Territories, and insular possessions of the United States, and it may operate them or any of them in such foreign countries whose governments grant it permits so to do: *Provided*, That it is hereby authorized to limit its liabilities on such foreign business to such funds or capital of the department doing such foreign business as its by-laws may prescribe.

PARAGRAPH 1. SEPARATE DEPARTMENTS.—The league shall have and maintain a separate department for each class of business done by it, and each department shall be designated by some appropriate word or words signifying the class of business transacted thereby. For example, it shall use the words "life department" to designate the department through which it transacts the business of selling indemnity, endowments, and annuities pertaining to human beings; "live-stock department" to designate the department through which it sells indemnity against loss or injury to domesticated animals and fowls; and "fire department" to designate the department through which it sells indemnity against loss or injury of or to property by fire, water, or the elements.

It shall obtain the approval of the Secretary of Commerce to the word or words used to designate departments other than the three departments herein specifically mentioned.

SUBPARAGRAPH 1. FUNDS OF DEPARTMENTS SEGREGATED.—The league shall segregate the assets, capital, surplus funds, and receipts of each department; and the assets, capital, surplus funds, and receipts of one department shall not be liable for the debts, obligations, or defaults of any other department: *Provided*, That the guaranty fund shall be and become a common fund for all departments, as is expressly provided in Article IV of this charter: *Provided further*, That 25 per centum of the general old-age pension fund of the life department shall become a common fund for the protection of the league when the guaranty fund becomes exhausted, subject to the provisions provided in said Article IV and the last paragraph of Article IX.

PAR. 2. CLASSIFICATION OF FUNDS.—Each department shall create and maintain a separate sinking fund and a separate safety fund, and in addition thereto the life department shall create and maintain a general old-age pension fund, and the league shall create and maintain a gauranty fund.

ARTICLE IV.

SECTION 1. CAPITAL.—Each department shall have a capital stock of $100,000, which shall be fully paid in cash before such department begins business. The stock of each department shall be divided into one thousand shares of $100 each, and certificates issued therefor numbering from one to one thousand. The stockholders shall be paid a dividend, if earned, of 7 per cent per annum, which dividend shall be cumulative and paid semiannually. The stock shall be nonassessable.

PARAGRAPH 1. SINKING FUND.—The proceeds from the sale of the capital stock, 1 per centum of the gross premium receipts of each department until its capital stock is retired, and such voluntary donations as may be made thereto, together with the interest accruing thereon, shall constitute the sinking fund of each department creating and maintaining it.

SUBPARAGRAPH 1. OBJECTS OF SINKING FUND.—The object of the sinking fund shall be to create a fund for the retirement of the capital stock of each department, to raise a guaranty fund, and to better protect the interest of stock and policy holders and cure any impairment in the safety fund of each department.

SUBPAR. 2. RETIREMENT OF STOCK.—The stock of each department must be retired, on the basis voted by a majority in value of the stockholders at their first meeting after the tenth anniversary of the issuance of the first policy of the respective department from the sinking fund of such department: *Provided*,

That the stock of no department shall be retired which would leave its sinking fund with less than $1,000,000 of approved assets.

PAR. 2. SAFETY FUND.—Each department shall create and maintain a separate safety fund from such portion of its premiums as the by-laws may prescribe.

SUBPARAGRAPH 1. OBJECT OF SAFETY FUND.—The object of the safety fund shall be to cure any impairment in the reserves of the department creating the same.

PAR. 3. GUARANTY FUND.—The remainder of the sinking fund of each department not used in retiring its stock shall be transferred to and become a part of the guaranty fund, which shall be a common fund of the league and under the management of the life department.

SUBPARAGRAPH 1. OBJECTS OF GUARANTY FUND.—The objects of the guaranty fund shall be to better protect the safety fund of each department, and thereby afford better security to the policyholders and creditors of the league. When the safety fund of any department becomes exhausted, then resort shall be had to the guaranty fund for the payment of the claims and creditors of such department: *Provided*, That when such resort is had such department shall not declare or pay a dividend to its policyholders until the principal sum so received is repaid, with interest at the rate of 5 per centum per annum.

ARTICLE V.

SECTION 1. DURATION OF LEAGUE.—The duration of the league shall be fifty years, but Congress hereby retains the power of amending this charter decennially after the twentieth year.

ARTICLE VI.

SECTION 1. PRELIMINARY CONTROL.—The preliminary corporate powers of the league shall be exercised by the commissioners named in section 3 of the act creating this charter, two of whom shall constitute a quorum for the performance of the duties imposed on them under this charter and the act creating this charter and the charter of the rural credit society.

PARAGRAPH 1. POWERS OF COMMISSIONERS.—The commissioners shall have power and authority to negotiate with some solvent and well-established life insurance coupany having at least $400,000,000 assets, and which is incorporated under the laws of some one of the several States, for the purpose of inducing such a company to surrender its State charter and agree to accept and operate under this charter; to choose three temporary censors and ten temporary censor electors, as provided in Article VII of this charter; to establish the temporary executive office of the league; to issue and sell the stock of the life department for cash at not less than par and deposit the proceeds of such sale in some banks selected by them for the use and benefit of the life department, subject to the league's check when the Secretary of Commerce issues a statement authorizing it to do business, and to arrange with the life department after it is organized to issue and purchase or act as the agent for the issuance and sale of the stock of the other departments at not less than par, and to be paid for in cash as each department is organized; to designate the number of directors of the league during its temporary control and incorporate such number in the articles of agreement referred to in the paragraph next following; to do and perform such duties as are imposed on them in the charter of the rural credit society also created by this act; and to employ such assistants, clerks, and agents as they deem necessary to aid them in performing the duties imposed on them under this charter and the charter creating the rural credit society and this act.

PAR. 2. EFFECT OF COMMISSIONERS' ACTS.—The procuring of the signatures of the chief executive officer and a majority of the directors or trustees of such an insurance company as is referred to in the paragraph immediately preceding to written articles of agreement to accept and operate under this charter shall have the force and effect of transferring all the assets, properties, contracts, and resources owned and possessed by such company and to which it is entitled to the league, and binding the league to assume all the debts and obligations of such company at the time of the signing of such articles of agreement, any law or statute to the contrary notwithstanding. Such articles of agreement shall be signed by the commissioners or a majority of them and delivered to the Secretary of Commerce; and if he approves the same, he shall issue a written statement authorizing the life department of the league to begin business.

PAR. 3. COMMISSIONERS TO ACQUIRE NO INTEREST IN LEAGUE.—The commissioners shall acquire no interest in the stock of the league nor accept anything of value or the promise of any office or other reward from the officers, directors, or trustees of the company with which they conduct such negotiations. The commissioners shall receive as a compensation for their services the sum of $2,500 each and traveling expenses incurred by them in performing the duties imposed on them under the two charters created by this act, which shall be paid them out of the $40,000 appropriation made immediately available by the act creating this charter; but such compensation and expenses, together with the compensation and expenses of the assistants, clerks, and agents appointed by them, shall not exceed the last-named sum.

ARTICLE VII.

SECTION 1. TEMPORARY CONTROL.—From the date of the execution of the articles of agreement referred to in paragraph 2 of section 1 of Article VI of this charter and until the league's mutualization ten years thereafter, as provided in section 5 of Article VIII, the corporate powers of the league shall be exercised by a board of directors and such officers and agents as such board may elect, except such powers as are by this charter vested in the censors and censors' electors, temporary and permanent.

SEC. 2. NUMBER OF DIRECTORS.—The said articles of agreement shall provide the number of directors, which shall not be less than nine nor more than twenty-five.

SEC. 3. ELECTION OF DIRECTORS.—The first board of directors shall be chosen by the commissioners and named in said articles of agreement, who shall serve until the second Tuesday in April next following, and their successors shall be elected annually thereafter by the stockholders of the life department, each share of such stock being entitled to cast as many votes as there are directors to be elected: *Provided*, That no director shall hold such office after the league's mutualization, but nothing herein is intended to prevent a director from holding the office of trustee when the league becomes mutualized, if he be eligible.

SEC. 4. ELECTION OF OFFICERS.—During the temporary control the officers shall be elected annually by the board of directors.

SEC. 5. QUORUM.—A majority of the board of directors shall constitute a quorum for the transaction of business.

SEC. 6. TEMPORARY CENSORS.—There shall be three temporary censors who, at the time their terms of office begin, must be, and for five years next preceding have been, public certified accountants and citizens of the United States.

SEC. 7. SELECTION OF TEMPORARY CENSORS.—The commissioners shall choose the first board of temporary censors, who shall serve for terms of eight, twelve, and sixteen months, respectively, and their successors shall be elected annually thereafter for a term of one year each by the temporary censors' electors until the permanent censors' electors have qualified; and the temporary censors shall be inducted into office four months apart after the expiration of the terms of the first board.

PARAGRAPH 1. TEMPORARY CENSORS' ELECTORS.—There shall be ten temporary censors' electors, each of whom must be a citizen of the United States who has carried on his own life, for a period of not less than ten years and in an amount for not less than $10,000, a policy of insurance with the company agreeing to accept and operate under this charter, but who holds no office or other position with such company and who, while serving as such, shall hold no office or other position with the league. No two of them shall be residents of the same State. The commissioners shall choose the first board of temporary censors' electors, and any vacancy occurring in such board shall be filled by those remaining.

PAR. 2. DUTIES OF TEMPORARY CENSORS' ELECTORS.—Each temporary censors' elector shall possess the privilege of nominating one eligible candidate for temporary censor at each temporary censors' election and to cast one vote for three candidates thereat, and to nominate one eligible candidate to fill any vacancy which may occur in the board of temporary censors' electors and to cast one vote at such election. All such elections shall be by ballot and all ballots must be mailed to the secretary at the league's executive office by United States post in envelopes with the words "Temporary censors' ballot" or "Temporary censors' elector ballot," as the case may be, written or printed in red ink on the address side thereof. Such ballots shall be safely preserved by the secretary and opened and counted in the presence of the temporary censors ten days after each such election. The temporary censors' electors shall fix the time of such election to suit their convenience, and the time so fixed by them shall be reduced to writing, signed by a majority of them, and mailed to the secretary to be preserved as a permanent record of the league.

PAR. 3. COMPENSATION OF TEMPORARY CENSORS' ELECTORS.—On the 31st day of December in each year the league's treasurer shall pay $1,000 to each temporary censors' elector who shall have voted that year at each election referred to in the paragraph immediately preceding.

SEC. 8. POWERS OF TEMPORARY CENSORS.—The temporary censors shall have power and authority to supervise all elections, verify the statements, audit the accounts, and inspect the books, papers, transactions, and properties of the league, attend board and committee meetings, become the custodian of one of the keys to the securities vault, and approve each by-law, contract, and agreement of the league in which a director, trustee, or officer is to acquire a direct personal interest.

PARAGRAPH 1. COMPENSATION OF TEMPORARY CENSOR.—Each temporary censor shall be paid a salary of $12,000 annually, in equal monthly installments, and traveling expenses incurred by him in performing his duties.

PAR. 2. INELIGIBLE FOR REELECTION.—A temporary censor shall be ineligible for reelection.

ARTICLE VIII.

SECTION 1. PERMANENT CONTROL.—When the league becomes mutualized, as provided in section 5 of this article, its corporate powers shall be exercised by a board of trustees and such officers and agents as such board may elect, except as otherwise expressly provided in this charter.

SEC. 2. NUMBER OF TRUSTEES.—The board of trustees shall consist of as many persons as there are trustee districts, if an eligible person therein be duly elected therefrom.

SEC. 3. TRUSTEE DISTRICTS.—The number and classification of trustee districts and the territory comprising each shall be as follows:

First class: First, Alabama; second, Arizona; third, Arkansas; fourth, California; fifth, Colorado; sixth, Connecticut; seventh, Delaware; eighth, District of Columbia; ninth, Florida; tenth, Georgia.

Second class: Eleventh, Idaho; twelfth, Illinois; thirteenth, Indiana; fourteenth, Iowa; fifteenth, Kansas; sixteenth, Kentucky; seventeenth, Louisiana; eighteenth, Maine; nineteenth, Maryland; twentieth, Massachusetts.

Third class: Twenty-first, Michigan; twenty-second, Minnesota; twenty-third, Mississippi; twenty-fourth, Missouri; twenty-fifth, Montana; twenty-sixth, Nebraska; twenty-seventh, Nevada; twenty-eighth, New Hampshire; twenty-ninth, New Jersey; thirtieth, New Mexico.

Fourth class: Thirty-first, New York; thirty-second, North Carolina; thirty-third, North Dakota; thirty-fourth, Ohio; thirty-fifth, Oklahoma; thirty-sixth, Oregon; thirty-seventh, Pennsylvania; thirty-eighth, Rhode Island; thirty-ninth, South Carolina; fortieth, South Dakota.

Fifth class: Forty-first, Tennessee; forty-second, Texas; forty-third, Utah; forty-fourth, Vermont; forty-fifth, Virginia; forty-sixth, Washington; forty-seventh, West Virginia; forty-eighth, Wisconsin; forty-ninth, Wyoming.

SEC. 4. QUORUM.—Each member of the board of trustees shall have one vote on the board, and a majority shall constitute a quorum.

SEC. 5. MUTUALIZATION OF LEAGUE.—Ten years from the execution of the articles of agreement referred to in paragraph 2 of section 1 of Article VI of this charter, the board of directors must meet for the purpose of mutualizing the league by electing one eligible person from each trustee district, and the persons so elected shall constitute the league's first board of trustees. Such trustees shall be divided into five classes, in the order provided in section 3 of this article. The term of the first class shall expire on the second Tuesday in April next following; that of the second class one year from that time; that of the third class two years from that time; that of the fourth class three years from that time; and that of the fifth class four years from that time; and so on, consecutively, in each and every year thereafter, so that all of one class shall be elected annually for a term of five years. All vacancies occurring on the board of trustees by death, resignation, or otherwise shall be filled by the members of the board remaining until the next general election: *Provided*, That when a vacancy occurs by reason of the recall of a trustee at a confidence election, as provided in paragraph 2 of section 10 of this article, a

special election must be called by the president within six, and not sooner than four, months after such vacancy occurs to fill such unexpired term.

SEC. 6. QUALIFICATION OF TRUSTEES.—Each trustee shall be a citizen of the United States, bona fide resident of his district, and qualified positive elector of the league, and remain such during his term of office.

SEC. 7. ANNUAL ELECTION OF TRUSTEES.—The annual election of trustees to fill the places of the outgoing class shall be on the second Tuesday in March of each year, and the newly elected members shall take charge of their office on the second Tuesday next following.

SEC. 8. MANNER OF ELECTING TRUSTEES.—The trustees shall be elected by the ballots of the qualified positive electors residing in their respective trustee districts. Such ballots shall be mailed to the secretary at the league's executive office by United States post in official envelopes, with the words "Official trustee ballot" written or printed in red ink on the address side thereof.

PARAGRAPH 1. BALLOTS AND ENVELOPES; HOW FURNISHED.—It shall be the duty of the secretary thirty days before an election of trustee to mail one official ballot and envelope to each qualified positive elector residing in the trustee district in which such election is to be held.

PAR. 2. OPENING, COUNTING, AND INSPECTING BALLOTS.—The secretary shall, on the fourth Tuesday in March of each year, open and count the ballots cast for trustees at the election held two weeks before in the presence of the censors, who shall inspect and count the same. Any candidate at such election may, at his own expense, appear at such opening and counting, either in person or by one representative appointed by him in writing, who may also inspect the same.

PAR. 3. CANDIDATES FOR TRUSTEE.—Each eligible person who desires to become a candidate for trustee of his district must notify the secretary of such desire three months before an election, and the secretary shall inform such person of the approximate expense of postage and printing necessary to place his name before the qualified positive electors of his district. If such person, within twenty days after mailing such information, make remittance to cover such approximate expense, it shall be the further duty of the secretary to cause the name, address, occupation, and business or professional connections of each such candidate to be printed on each ballot sent out by him, and mail one of such ballots to each qualified positive elector who has resided in such district one or more years. The candidate receiving a plurality of the votes cast at such election shall be declared elected. If candidates tie at an election, a special election shall be held one month after the opening and counting of such ballots to decide the issue between them.

SEC. 9. POSITIVE ELECTOR DEFINED.—Each citizen of the United States who has been a bona fide resident of a trustee district for at least one year, and who carries, and has carried for a period of at least ten years, a policy or policies of insurance on his own life with the league or company reinsured by it, which policy or policies have unencumbered reserve values aggregating not less than $5,000 (such reserves to be calculated on the American experience table of mortality with interest at 3 per centum per annum on the net premium basis), is defined to be a positive elector, and shall be entitled to hold the office of trustee and to cast one ballot for a candidate for trustee of a district in which at least twenty qualified positive electors reside and have resided a least one year, unless he shall have been disqualified, as provided in paragraph 1 of this section.

PARAGRAPH 1. DISQUALIFICATION OF POSITIVE ELECTORS.—Any positive elector may be disqualified as follows: First, by himself, either by making a written request of the league for that express purpose or by his failure or refusal to exercise his privilege to vote at a trustee election when entitled to do so; second, or by the negative electors at a confidence election, as provided in paragraph 2 of section 10 of this article. No disqualified positive elector shall vote for trustee or hold such office.

SEC. 10. NEGATIVE ELECTOR DEFINED.—Each citizen of the United States who has been a bona fide resident of a trustee district for at least one year and who carries and has carried for a period of at least ten years a policy or policies of insurance on his own life with the league or company reinsured by it, which policies have unencumbered reserve values aggregating not less than $500 nor more than $5,000 (such reserves to be calculated on the same basis as provided in section 9 of this article), is defined to be a negative collector and shall be entitled to cast one vote by official ballot at each confidence election held in his confidence election district to disqualify a qualified positive elector or electors residing in the same district.

PARAGRAPH 1. CONFIDENCE ELECTION DISTRICTS.—The District of Columbia, each county, each parish in a State having no county government, and each city not embraced in a county or parish but situated in a trustee district, shall constitute a separate confidence election district.

PAR. 2. MANNER OF CALLING CONFIDENCE ELECTIONS.—When 25 per cent of the negative electors of a confidence election district petition the league in writing to cast a vote of confidence on one or any number of qualified positive electors residing therein, it shall be the duty of the secretary to prepare ballots containing the names of the qualified positive electors to be voted on and mail one to each negative elector thereof, together with an official envelope. If a majority of the negative electors of such district vote a lack of confidence in any qualified positive elector, it shall have the effect of disqualifying him from thereafter voting for trustee or holding such office. The president, a majority of the censors or temporary censors, as the case may be, or 20 per cent of the trustees may call confidence elections at will: *Provided*, That not more than one confidence election shall be held during a period of five years to disqualify the same qualified positive elector.

SEC. 11. ANNUAL ELECTION OF OFFICERS.—The board of trustees shall, on Wednesday next following the second Tuesday in April of each year, elect a president, secretary, seven members of the advisory council, and such other officers as the by-laws may prescribe.

PARAGRAPH 1. TERMS OF OFFICE OF OFFICERS.—The officers shall be elected for a term of one year each and until others are elected in their stead.

SEC. 12. ADVISORY COUNCIL.—The advisory council shall consist of not less than seven or more than fifteen persons, who shall be qualified positive electors.

PARAGRAPH 1. POWER OF ADVISORY COUNCIL.—The advisory council may exercise such power and authority as shall be delegated to them by the board of trustees, which shall not exceed the power and authority such board may exercise under this charter: *Provided*, That any by-law enacted by the advisory council shall remain in force and effect only until the day following the next meeting of the board, and the chairman of such council shall immediately upon the enactment of a by-law notify each member of the board of the same and furnish each with a true copy thereof.

SEC. 13. CENSORS.—The directors and trustees are authorized to negotiate with the United Commercial Travelers of America, a fraternal association with its supreme council in Columbus, Ohio, or the Travelers' Protective Association with its supreme council in Saint Louis, Missouri, for the purpose of inducing one of them to make the life department of the league the official life insurance company for its members, under such terms and conditions as may be mutually agreed upon by the board of directors or trustees of the league and duly authorized officials of such fraternal association and approved by the Secretary of Commerce. When such agreement is duly and properly executed, then each member of such fraternal association residing in a censor's district and carrying on his own life, with the league or company reinsured by it, a policy of insurance for not less than $1,000, is defined to be a censors elector and shall be entitled to nominate one candidate for censor at each censor's election held therein and cast one vote at such election.

PARAGRAPH 1. DESIGNATION OF DISTRICTS TO HOLD CENSORS' ELECTIONS.—At each annual election of officers the board of trustees shall designate three districts in which censors' elections shall be held the following year. If the board fails or refuses to designate such districts, the censors in office shall perform such duty.

PAR. 2. NUMBER AND QUALIFICATION OF CENSORS.—There shall be three censors elected annually for a term of one year each, who shall take charge of their office four months apart and be ineligible for reelection. A censor must be, and for five years next preceding his election have been, a public certified accountant, and a resident of or maintain a business office in the censor's district from which he is elected.

PAR. 3. CENSOR'S DISTRICT.—A censor's district shall comprise a city in the United States with a population of not less than one hundred thousand in which such fraternal association has a local council with at least ten qualified censors electors.

PAR. 4. CENSORS FROM SEPARATE STATES.—No two censors serving at one time shall be residents of the same trustee district.

PAR. 5. METHOD OF ELECTING CENSORS.—The agreement between the league and such fraternal association shall prescribe the method of holding censors'

elections, which shall have the force and effect of a by-law and not subject to amendment or repeal except by the mutual consent of the board of trustees and the supreme council of such fraternal association: *Provided*, That until censors' electors have qualified in at least ten censors' districts the temporary censors' electors shall continue to elect temporary censors.

SUBPARAGRAPH 1. PROHIBITION AGAINST CENSORS' ELECTORS.—No censor's elector shall hold any office or other position with the league nor recommend any person for an office or other position with it, and any censor's elector violating the provisions of this subparagraph shall be rendered ineligible to vote at a censor's election.

PAR. 6. COMPENSATION OF CENSORS.—Each censor shall be paid an annual salary of $12,000, in equal monthly installments, and traveling expenses incurred by him while performing his duties.

PAR. 7. AUTHORITY OF CENSORS.—The censors shall have power and authority to supervise all elections, call confidence elections, audit the accounts, verify the statements, and inspect the books, papers, transactions, and properties of the league, become the custodians of one of the keys to the securities vault, and approve each by-law, contract, and agreement in which a director, trustee, or officer making the same is to acquire a direct personal interest.

PAR. 8. SPECIAL OLD-AGE PENSION FUND.—In consideration of the service such fraternal association would render the league in keeping it properly inspected, the board of directors and trustees are authorized to raise a special old-age pension fund for the sole use and benefit of the members of such fraternal association as may be mutually agreed upon by the board of directors or trustees of the league and the supreme council of such fraternal association: *Provided*, That no person holding an office or other position with the league shall become a beneficiary of such fund.

SEC. 14. POLITICAL CONTROL PROHIBITED.—No member of the board of trustees or advisory council shall become a candidate for or hold any elective office under any Government or with any political party while holding either of such places of trust with the league.

ARTICLE IX.

SECTION 1. GENERAL OLD-AGE PENSION FUND.—When the stock of the life department is retired, such department shall begin the accumulation of a general old-age pension fund by placing therein such portion of its premium income as the by-laws may prescribe, not to exceed one-tenth of 1 per centum, the interest and other income from which shall become available at such time as the board of trustees may decide, and paid annually thereafter in the manner and to the persons complying with one of the requirements imposed in paragraph 1 of this section.

PARAGRAPH 1. BENEFICIARIES OF GENERAL OLD-AGE PENSION FUND.—Each person who has in full force and effect an unencumbered insurance or deferred forfeitable annuity contract which he has carried on his own life with the league or company reinsured by it, for the amount and time, and who has attained the age prescribed, respectively, in one of the following four subdivisions of this paragraph, shall be entitled per capita to an equal portion of the yearly available income of the general old-age pension fund.

First. Those who for forty years have carried such insurance for not less than $1,000, or such annuity on which the premiums aggregate $100, and have attained the age of sixty-five years.

Second. Or those who for thirty years have carried such insurance for not less than $2,000, or such annuity on which the premiums aggregate $200, and have attained the age of sixty-seven years.

Third. Or those who for twenty years have carried such insurance for not less than $3,000, or such annuity on which the premiums aggregate $300, and have attained the age of sixty-eight years.

Fourth. Or those who for ten years have carried such insurance for not less than $4,000, or such annuity on which the premiums aggregate $400, and have attained the age of seventy years.

PAR. 2. ENDOWMENT OF GENERAL OLD-AGE PENSION FUND.—Any person may voluntarily endow the general old-age pension fund, the income from which to become available and payable to beneficiaries at such time or the happening of such event and under such terms as may be mutually agreed upon in writing by and between the endower and the board of directors or trustees; but the available income from every such endowment must be general and apply and

be paid, without exception, as is expressly provided in paragraph 1 of this section.

PAR. 3. BENEFACTORS' NAMES TO APPEAR.—Each person endowing the general old-age pension fund in a sum for not less than $1,000,000 shall have the right to designate the name of one benefactor, which name shall be printed on each check remitting the available portion of such fund to the beneficiaries thereof, such names to appear in the order in which the endowments are made, beginning with the first.

PAR. 4. OBJECTS OF GENERAL OLD-AGE PENSION FUND.—The objects of the general old-age pension fund are to encourage our youth to capitalize their future income and protect themselves against want in old age and to better protect the interests of policyholders of all departments. To meet the last-stated object it is provided that in the event the guaranty fund becomes exhausted from any cause, then, and in such event only, shall the general old-age pension fund be liable to the extent of 25 per centum; but the department causing such exhaustion shall not declare or pay a dividend to its stock or policyholders until the general old-age pension fund is fully reimbursed, both in principal and interest, at the rate of 5 per centum per annum for the sum so used.

ARTICLE X.

SECTION 1. OBLIGATION TO RURAL CREDIT SOCIETY.—The life department of the league hereby becomes obligated to the rural credit society as follows:

First. To invest $50,000 in the capital stock of each of the forty-eight branches of said society, each of such investments to be made within thirty days after the Secretary of Agriculture notifies the league of the organization of the respective branch.

Second. To purchase at the market price and at all times carry $100,000 of the credit paper of each branch of said society, provided such society has such an amount it is willing to sell to the league.

Third. To select annually one auditor and such number of deputy auditors for said society as the president of the league deems necessary for the business requirements of said society, and prepare a schedule of compensation for them and submit the same to the censors of said society for approval.

Fourth. And to act as trustee for the acceptance from the Government of the United States of the guaranty fund of said society, invest the same, and pay into the society's treasury the principal and accrued interest of said fund, less one-half of 1 per centum per annum as the league's compensation for the risk and expense of such trust, at such time or times and in such amounts as the Secretary of Agriculture may require.

PARAGRAPH 1. OBLIGATIONS ENFORCED IN THE COURTS.—The rural credit society may enforce the obligations imposed on the league in this article by resort to any court of law or equity in the United States having jurisdiction of the matter.

ARTICLE XI.

SECTION 1. TAXES.—The league shall pay into the Treasury of the United States 2 per centum per annum on its paid-up capital stock of each department and such rates on its real estate owned by it to the States where situated as may be provided by the laws of such States.

PARAGRAPH 1. SECOND-CLASS MAIL PRIVILEGE.—The league's premium and policyholders' dividend notices and receipts and periodical bulletins to its policyholders shall be rated as second-class matter and sent through the mails of the United States as such, under such rules and regulations as the Postmaster General may prescribe.

ARTICLE XII.

SECTION 1. STATEMENTS.—The league shall render such statements to the Department of Commerce as the Secretary of Commerce may require.

PARAGRAPH 1. QUINQUENNIAL STATEMENTS.—The league shall quinquennially publish a full itemized statement, including all by-laws, and send to any public library in the United States a copy thereof which makes written request therefor three months before such publication and remits to cover the expense in sending out the same.

ARTICLE XIII.

SECTION 1. LEGAL PROCESS AGENT.—The league shall at all times have an agent in the District of Columbia and each of the several States on whom legal process may be served and furnish the Secretary of Commerce with a list of the same.

ARTICLE XIV.

SECTION 1. CONGRESS TO PRESCRIBE PENALTIES.—The Congress shall enact appropriate legislation imposing penalties for the violation of the terms of this charter and the league's by-laws and for crimes and misdemeanors against the corporation.

SEC. 7. That any president, vice president, director, trustee, member of the advisory council, censor, temporary censor, inspector, medical examiner, secretary, officer, manager, agent, or other representative of the league, who embezzles, abstracts, or willfully misappropriates any of the moneys, funds, or credits of the league; or who knowingly, without first obtaining the written approval of the censors or temporary censors, makes a contract or enacts a by-law for the league through which he is to acquire a direct personal pecuniary interest; or who makes any false entry in any book, report, or statement of the league, with intent, in either case, to injure or defraud the league or any company, body politic or corporate, or any firm or individual person, or to deceive any officer or censor or temporary censor of the league; or obtains or causes to be obtained any policy or other contract from the league for the purpose of defrauding it; and every person who with like intent aids or abets any officer, clerk, agent, medical examiner, or other representative of the league in the violation of this section shall be deemed guilty of a misdemeanor, and shall upon conviction be imprisoned for not less than two nor more than ten years.

SEC. 8. That the sum of $25,040,000 is hereby appropriated, out of any moneys in the Treasury not otherwise appropriated, to effect the purposes of this act, of which $40,000 shall become available immediately to defray the preliminary expense of putting this act in operation. Such last-mentioned sum, or so much thereof as may be necessary, shall be paid by the Treasurer upon the presentation to him of vouchers duly signed by the chairman of said commissioners and approved by the Auditor of the Treasury. The commissioners shall elect one of their number as chairman, who shall preside at their meetings, call the commissioners together, direct the activities of themselves and such experts, agents, and clerks as they may appoint to aid them, and sign all vouchers on the Treasurer, which vouchers shall not aggregate the sum of $40,000. The commissioners shall fix the compensation to be allowed the experts, agents, and clerks appointed to aid them. They shall be compensated by a salary of $2,500 each and traveling expenses incurred by them in performing the duties imposed on them under this act.

The said sum of $25,000,000 hereby appropriated shall become available when said commissioners have caused the articles of agreement referred to in paragraph 2 of section 1 of Article VI of the said liberty insurance league charter, created by this act, to be signed and executed in the manner therein prescribed and approved by the Secretary of Commerce, when said sum shall be paid into the treasury of said league by the Treasurer of the United States upon the presentation to him of a voucher duly signed by the Secretary of Commerce and approved by the Auditor of the Treasury.

The CHAIRMAN. Mr. Milliken, do you want to proceed first, or do you want Mr. Spillman to proceed?

Mr. MILLIKEN. I will proceed, if that is agreeable.

The CHAIRMAN. Mr. Milliken, we will be glad to have you address yourself to the bill and to the subject generally.

STATEMENT OF MR. R. C. MILLIKEN, MONETARY STATIST FOR THE RURAL CREDIT COMMITTEE OF THE NATIONAL SOCIETY OF RECORD ASSOCIATIONS, 318 EAST CAPITOL STREET, WASHINGTON, D. C.

Mr. MILLIKEN. My name is R. C. Milliken, monetary statist for the rural credit committee of the National Society of Record Associations.

Mr. Chairman, this is an association of all the purebred live-stock associations, and as the association is not as well known as the constituent members, I would like to have the names of the members of my committee put into the record, and to give our street address here.

Mr. BLACK. And you represent what?

Mr. MILLIKEN. I represent that committee that was selected by the national society.

The CHAIRMAN. If there is no objection, you can read them into the record.

Mr. MILLIKEN (reading):

"F. L. Houghton, secretary Holstein-Friesian Association, chairman; Wayne Dinsmore, secretary of Horse Association of America; F. W. Harding, general executive Shorthorn Breeders' Association and secretary American Cotswold Association; Robert J. Evans, president American Swine Growers Association and secretary Duroc-Jersey Association; and Wm. H. Caldwell, secretary Guernsey Cattle Club, members; R. C. Milliken monetary statist."

The enacting clause of the bill states the purposes of it are "to standardize paper for agricultural production, to establish discount markets for such paper, and to create necessary fiscal agents for the Government of the United States, and for other purposes." Of course, the fiscal agency clause in the bill is to give it constitutionality. We know that otherwise Congress would have no authority to legislate. That was decided in the case of Bank *v.* Venno (8 Wall., 533). That was the case in which the 10 per cent tax on State bank circulation was rendered. It was contended that the act was not intended to raise a revenue but to destroy the State banks. But the Supreme Court held that inasmuch as Congress had the right to levy the tax it was not the province of the court to go into the motives of Congress, and possessing the power to levy the tax the act was declared valid. The Supreme Court in the recent Federal land bank case made the same statement, sustaining the constitutionality of the farm-loan banking system, by reason of the fact that Congress had created a fiscal agency for the Government of the United States.

The power of Congress to create financial and fiscal agents for the Government of the United States is unquestioned. All that Congress has to do to make its act constitutional in the matter of creating such agencies is to declare they are necessary. As this is the first attempt to employ such power for the creation of an insurance company, it might not be out of place for me to point out to you the instances in the past in which such agencies were necessary for the administration of the Government.

It is not my purpose to discuss the panic of 1893 nor the causes which brought it about, except to illustrate my point—the necessity for such a fiscal agency at that time. It will be recalled that early in that year our ability to maintain the gold standard was seriously questioned among the investors of the world. Both political parties had been flirting with the silver issue for several years. The gold reserve had declined so far below the danger mark that a bond issue was resorted to. The Secretary of the Treasury attributed the failure of the first issue to the fact that the bonds were payable in "coin," so he decided to make a "gold" issue. He called on the law clerks of the Treasury Department to look up his authority to do so, and they advised him that he possessed no such authority under the law. The law existed but had never been exercised, and those law clerks relied on the custom of the department rather than to the act of Congress. Hence it was that the Secretary made an arrangement with a financial firm to maintain the gold standard for six months in consideration that Congress authorize the issuance of gold bonds. Had that official applied to any one of the big life insurance companies for that advice he would have been properly advised, for each of them has bond experts who rely on the law, not custom. Their bond purchases are so large that they must have bond experts to advise them, and the Government should have one of such corporations to advise it on such matters. For making that mistake the Secretary of the Treasury and his chief were branded with corruption on nearly every stump in this country. Congress should not force our high public officials to have to rely on Government clerks who have had no business experience for such advice. No other country does.

Another instance in which the Government needed such a fiscal agency was during the war, when the War Risk Insurance Bureau was created to provide insurance for our soldiers and sailors. That act became operative October 6, 1917, or 11 months and 5 days before the signing of the armistice. Yet during that short period the bureau wrote more than forty billions of insurance, exclusive of its allotment and allowance and compensation business. Its insurance business alone exceeded the amount on the books of all the American companies at that time, all written within one year. Every American life insurance company placed its official staffs and agency forces at the command of that bureau during the war. Every life-insurance agent was commanded by his officials to

exert his best efforts in explaining that act to the soldiers and urging them to carry the limit. The bureau had some of the ablest and best life insurance men in the country in its employ, yet it was the most inefficient bureau created to carry on the war, and the reason therefor is apparent to every thinking man. It is absolutely impossible to perfect such an organization in the time required in that case. It takes years to perfect such an organization.

What Congress should have done was to have created a Federal insurance charter and induced one of the big life insurance companies to have conducted that business for our soldiers and sailors. That would have saved the Government two-thirds the expense it incurred in managing that bureau and our soldiers would have had ten times better service than they received from the Government. It was insurance service for our soldiers that we needed at that time, and the only way to procure that is through a well-organized institution doing that particular class of business.

At the request of the Hon. W. S. Gifford, director of the National Council of Defense, I prepared a plan along that line, and the charter I prepared for our soldiers was almost identical with the insurance-league charter of the McFadden-Kenyon bill. I had been working on that plan two months before Secretary McAdoo announced his socialistic plan—a plan devised by a man who never had a day's experience in life insurance, as I made him admit at the hearings on the House bill. The House committee begrudgingly gave me an hour to present my plan. From the treatment accorded me before that committee I realized the futility of attempting to make further headway before them. So I decided to look up some soldiers—the real beneficiaries of the bill—and present it to them in person. So that evening I went to the Washington Barracks and found that the first battalion of the Sixth United States Engineer Regiment was encamped there. I looked up the commandant, Maj. (now Gen.) John N. Hodges, a graduate of our Military Academy, with something like 16 years' experience in the Army. After listening to me explain the difference between my plan and the administration plan he said that mine seemed so much preferable that he would select some soldiers for me to present it to. He said he would have them at the post lecture room at 2 o'clock the next afternoon. I spent more than two hours presenting the two plans to them, and at the conclusion they asked me to see the commandant and procure for them a furlough to enable them to appear before the House committee and ask that my plan be substituted for the administration's plan. I did as they requested and they appeared before the committee, but the committee refused to listen to them.

It was on August 24, 1917, that I appeared before the House committee, and the Senate committee began its hearings on September 18, and during the interim I had several talks with those soldiers on those two plans. Several of them were well educated and one was an experienced life-insurance man who resigned a $250 per month position to enlist in the Army as a private. Those soldiers, after reading the bill and hearings before the House committee, decided to petition to Congress. That petition was in triplicate, one being posted on the bulletin board of each of the three companies of their battalion. Neither they nor I knew it was a violation of the Army regulations for a soldier to petition Congress at that time. Those petitions were on the bulletin boards two hours before one of the officers discovered them and had them removed, but during that time more than 200 of the 500 soldiers of that battalion signed it. A copy of that petition may be found in the Senate hearings on that bill. It is quite long and I shall simply ask your indulgence while I read the concluding paragraph:

"Therefore we believe our interests would be best conserved if the Government negotiated with one of the big companies to do that business for us, because such a company could not be induced to assume a contract involving such a stupendous obligation unless it was safe, and Congress can protect us against the company by seeing to it that its contracts with us are enforcable in the courts. That would afford us double protection and at the same time guarantee us against sinister political influences."

The Senate committee allotted me just five minutes in which to present my plan. I did not have time even to read the petition of those soldiers, though the committee was gracious enough to have it incorporated as a part of my remarks. Just before the Senate committee began its hearings I had a conversation with Mr. George E. Ide, president of the Association of Life Insurance Presidents (an association composed of the presidents of all the large life insurance companies) in which he said he had read my plan, which appeared

in the hearings of the House committee, adding it was sound and practicable and would save the Government tens of millions in expenses and furnish our soldiers a far superior service than it was possible for the Government to render.

I have treated this phase of the bill at such length for the sole purpose of showing the utter futility of attempting anything of a constructive nature during war times. That is a time for action rather than accuracy. Everything is so topsy-turvy that no one can think clearly. Therefore such a measure as this must be prepared in a time of peace long in advance of its use. Furthermore, the corporation which would have such a trust committed to its charge must first gain public confidence to a high degree. That is how the Bank of England became the most important public service corporation in the world. It was organized to make profits for its stockholders, but it served the public so faithfully that Parliament made it the sole banker for the Government, later committing the Government pension business to its charge, etc. If the proposed insurance league should serve our farmers faithfully, then Congress would doubtless create other similar fiscal agencies to handle the War Risk Insurance Bureau, as the proposed league would have quite enough to do to attend to the trust reposed in its charter. This country never had more patriotic citizens than the men who organized some of our old mutual life insurance companies, many of whom worked for years without compensation. They enjoyed public confidence to the highest degree, and many wills are of record directing that the estates be invested in the class of securities held by those companies.

Still another reason why Congress should create these two fiscal agencies is to create a class of standard securities to cover the banking obligations of the policy contracts issued by the War Risk Insurance Bureau. I shall elaborate on this later on when I present the monetary phase of this bill.

As this bill purposes to create a new system of banking—at least new to us, but old in other countries—20 centuries older than the other two systems of banking of which we have authentic knowledge—it is necessary to go into the history of banking, and that is done in a very short statement by the greatest banker that ever wrote on the subject, James W. Gilbart, the man who created the present banking system of England, who wrote this book in 1827, and I am going to just read to you what he said.

The CHAIRMAN. Why not refer to the volume and page?

Mr. MILLIKEN. That is on page 131, section 8, "Banks of deposit," first volume, Gilbart on Banking, by Ernest Sykes, 1907 edition, which was furnished to the Congressional Library by the Monetary Commission, the very highest authority. [Reading:]

"Banking is a kind of trade carried on for the purpose of getting money. The trade of a banker differs from other trades, inasmuch as it is carried on chiefly with the money of other people.

"The trading capital of a bank may be divided into two parts, the invested capital and the banking capital. The invested capital is the money paid down by the partners for the purpose of carrying on the business. This may be called the real capital. The banking capital is that portion of capital which is created by the bank itself in the course of its business, and may be called the borrowed capital.

"There are three ways of raising a banking or borrowed capital. First, by receiving deposits; secondly, by the issuing of notes; thirdly by the drawing of bills. If a person will lend me £100 for nothing and I lend that £100 to another person at 4 per cent interest, then in the course of a year I shall gain £4 by the transaction. Again, if a person will take my 'promise to pay' and bring it back to me at the end of the year and pay me 4 per cent for it, just the same as though I had lent him 100 sovereigns, then I shall gain £4 by that transaction; and, again, if a person in a country town brings me £100 on condition that 21 days afterwards I shall pay the same amount to a person in London, then whatever interest I can make on the money during the 21 days will be my profit. This is a fair representation of the operations of banking and of the way in which a banking capital is created by means of deposits, notes, and bills."

Credit has precisely the same effect on values as gold.

An expansion of credit by $100,000,000 has as much influence on prices as an addition of $100,000,000 to the quantity of gold. John Stuart Mill says, "Money and credit are exactly on a par in their effect on prices."

Henry Dunning Macleod, another great Scotch philosopher of credit, in his Theory of Credit, says:

"It is perfectly acknowledged that credit produces exactly the same effect on prices as gold. And it has been shown by authentic statistics that in modern times gold only forms about 1 per cent of the circulating medium of currency; and to suppose that a variation to the small extent of a fraction of 1 per cent in the amount of the circulating medium, or measure of value, could produce the effect so popularly attributed to it is wholly beyond reason."

We must not fail to differentiate between money and credit. Money has two functions, one as a measure of value and the other as a medium of exchange. In order to perform its function as a measure of value money must possess a value in and of itself and aside from its use as money. Wheat during Colonial days was the money of Pennsylvania. It was made such because at that time it was the principal commodity of that colony. Tobacco was the money in both Maryland and Virginia, a statement which may be verified by an examination of the old deed records in the counties surrounding this city. Credit is not money, but only the representative of money or promise to pay money.

I now beg to consider the history of the bill of exchange, or the ancient system of "banking with bills." I quote from the Venetian Republic by Hazlitt, page 622, volume II. In speaking about the scant coinage in the Venetian Republic—and we must bear in mind that Venice from the seventh to the sixteenth centuries was the richest and most powerful commercial nation in the world; she dominated the seas, as Hazlitt says, and possessed the sole line of communication between the Occident and the Orient.

The CHAIRMAN. What did Venice cover in the way of territory?

Mr. MILLIKEN. Venice was built on stilts in the Adriatic sea, but she sought trade rights. She did not seek territory. The Dalmatians refused to trade with her during the crusades, and when the crusaders visited Venice en route to the Holy Land they had no ships. So the Venetians agreed to supply the ships, if the crusaders would force the Dalmatians to trade with her. The armies of the crusaders soon brought the Dalmatians to terms and Venice furnished the ships for their trip to the Holy Land.

Hazlitt says [reading]:

"All these devices for obviating the inconvenience arising from the scanty currency might, however, have failed to provide any adequate remedy for the evil if trade had not been largely conducted on a basis of exchange and payments in kind had not long remained in universal vogue. We must acquit the Venetians of an ignorance of bills and other substitutes for cash, when such facilities were elsewhere enjoyed in the twelfth and thirteenth centuries; and while the first explicit reference to such matters is as late as 1405, the passage where it occurs speaks of it rather as a familiar principle than as a novelty in practice, and so much so that we have an actual document of 1326 immediately belonging to Milan, but the counterpart and sample, beyond doubt, of thousands or hundreds of thousands which once existed up and down commercial Europe. It is in the subjoined terms and points to a practice of giving six months' credit, or, as is now expressed, of drawing at six months."

At the time he speaks of, the date of this bill that was found in Milan was several centuries before the oldest deposit or note issue bank of Europe was incorporated, the oldest one being the Bank of Venice in, I think it was, 1509.

It was not until within the past three centuries that deposit and note issue banking was carried on in England. The English merchants used the Tower of London as a depositary for their gold to meet their bills of exchange, and it was Charles I who confiscated that gold that brought about what was then termed by Sir Josiah Child "the new-fashioned bankers" in his Essay on Trade, published in 1678, which you will find in the Library of Congress among Jefferson's collections.

Sir Josiah Child was the greatest captain of industry prior to the captains of industry in America. He was the founder of the East India Co., a member of Parliament, a Fellow of the Royal Society of London, was a philosopher, and it would be a treat to any one to read his Essay on Trade published in 1678. Of course he talked from experience, and he charged the "new-fashioned bankers" of England at that time—"deposit and note issue bankers"—with being responsible for raising the interest rate 2 or 3 per cent higher than it was in Holland, because they were paying 6 per cent for their borrowed money. And Gilbart in his treatise makes mention and argues from that and sustains his position. He himself makes an extended argument on it.

I am merely setting forth this as a basis for the discussion.

The CHAIRMAN. We are very glad to have it.

Mr. MILLIKEN. The bill of exchange to-day is the principal currency in the commerce of England and France.

This brings us now to a consideration of how these bills perform such a mission in the commerce of those countries. England has standardized the bill of exchange through the acceptance house. These acceptance houses grew out of the old importing firms, and they had established such high-grade international credit that they were called upon by merchants of second-rate credit to accept for them, and in that way they specialized in acceptances to the exclusion of their importing business.

I now wish to quote on that and give you the history of it, from Hartley Withers's "The Meaning of Money," page 160. Mr. Withers is editor of the Economist, and is the most authoritative monetary writer to-day in England, and his work was collected by the Monetary Commission and was published shortly before the Monetary Commission went abroad.

On page 160 it is said:

"It is easy to understand how a distinct class of accepting houses grew up out of the merchant importers who originally accepted bills in the course of their importing business; that is, accepted orders on themselves to pay for goods which were in process of being forwarded to them. The readiness with which the acceptances of the different merchants would be discounted and turned into cash would vary considerably with the difference in their reputation and standing and the caution with which they were credited in the matter of conducting their business. And the varying readiness with which certain acceptances were discounted would inevitably express itself in varying rates at which their bills could be placed. It would thus naturally follow that it would profit merchants of second-rate standing to give a commission to those whose reputation was more exalted in order to secure a more attractive signature than their own, and so get back the commission and a little more by being able to finance their operations more cheaply than by means of their own acceptance.

"The merchants of first-class credit would thus find that they could let out the use of their reputations on profitable terms and proceed to specialize in this branch of business, which consisted in examining the bills put before them for acceptance, keeping themselves well acquainted with the means and standing of the drawers, and giving their acceptance, for a commission, to such paper as fulfilled the requirements of their discrimination."

In Daniels on Negotiable Instruments (p. 7, Vol. I, 6th ed.) it is said that those bills of exchange in time performed every function of money.

The commercial men of England and France, countries that had the soundest credit system in the world before the war, obtained credit at a far less rate than the commercial men of America.

Baron Brincard, the directing head of the Credit Lyonnais, the most important bank in the world at the time the Monetary Commission was abroad, made the statement to the Monetary Commission that the open discount rate for commercial bills of exchange was 1 per cent per annum in Paris on the day he testified before the commission, while the Bank of France's rate the same day was 3 per cent. In this connection I might state that for nine consecutive years the Bank of France's discount rate was 3 per cent.

I compiled the open-market discount rate for the last Thursday of each month for the year of 1910, in comparison with the Bank of England rate, which I wish to show you gentlemen. This is my testimony before the Senate Committee on Banking and Currency on the Federal reserve bill. Those discount rates are as follows:

January 25 the open-market rate was 2½ per cent and the bank rate was 3½ per cent.

January 23 the open-market rate was 1½ per cent and the bank rate was 3 per cent.

March 22 the open-market rate was 3 and 3¼ per cen and the bank rate was 4 per cent.

April 21 the open-market rate was 3¾ and 4 per cent and the bank rate was 4 per cent.

May 23 the open-market rate was 4 and 4½ per cent and the bank rate was 4 per cent.

That was the only time so far that the open-market rate was in excess of the bank rate.

On June 21 the open-market rate was 2¾ and 3 per cent and the bank rate was 3 per cent.

On July 23 the open-market rate was 1½ per cent and the bank rate was 3 per cent.

August 22 it was 1½ per cent and the bank rate was 3 per cent.

August 22 the open-market rate was 1¾ and 2 per cent and the bank rate was 3 per cent.

On September 22 the open-market rate was 1¾ per cent and the bank rate was 3 per cent.

October 24 the open-market rate was 4¼ per cent and the bank rate was 5 per cent.

November 21 the open-market rate was 5¼ per cent and the bank rate was 5 per cent.

On December 20 the open-market rate was 3 per cent and the bank rate was 4½ per cent.

Mr. BLACK. Mr. Milliken, will you permit a question there?

Mr. MILLIKEN. Yes, sir.

Mr. BLACK. That would seem to indicate that there was a very violent fluctuation in credits. How do you account for such a sudden rise?

Mr. MILLIKEN. Well, London was the financial center of the world, and the credit fluctuations there are more violent than in France. France was not a commercial country; England was the only free gold market in the world, as France was on a so-called double standard.

Now, take it in the panic of 1907: The Bank of France, it is reported, would say to men who came to them with bills of exchange to demand gold to export to America, "Well, if you want this gold to export out of France we will pay you in silver." Such is not the case in London. The Bank of England had to support the market and raise the rate of discount to protect her gold supply.

You understand that if the Bank of England rate was 4 per cent and the open market was 2 per cent, then the bank rate is ineffective. The Bank of England would have no influence over the market.

The only way that the bank can make its own rate effective is by going out and buying up the floating supplies of money. It did that openly once, and failed. So it since has employed brokers who do not divulge the name of their client. In this way the banks and others who have surplus money sell it to the Bank of England.

When the Bank of England's coffers are filled with gold and the public owns the securities then the Bank of England commands the open-market rate, just simply like a man who wanted to control the potato market. If he goes down here and buys up all the potatoes he controls the market for the time being; and money is a commodity just like potatoes, corn, wheat, cotton, and oats.

France is not a free gold market like England, nor has she the international trade of England, and in consequence the discount rate of the Bank of France did not fluctuate as did that of the Bank of England. The Bank of England is controlled by the great merchants of England and those acceptance houses. No deposit banker has any voice in the control of the Bank of England or the Bank of France, and they have full authority to do a banking business. There is hardly a limitation on their power and authority to do a banking business, but those in control are interested in using those banks to serve commerce, because they have such large interests in commerce and small interest in the bank that they think about serving commerce more than they do about making a profit on their stock in those banks.

I now beg your indulgence while I point out the superiority of banking with bills over promissory notes. The bill of exchange differs from a promissory note chiefly in the fact that the bill carries on its face abundant proof that it represents a real productive transaction, whereas a promissory note may represent a financial transaction for borrowed money or for consumption; and consumptive credit is a thing that is almost prohibitive in Europe; so is a promissory note; they are just as unfamiliar with a promissory note over there in their transactions as we are with bills of exchange here.

Let me illustrate to you the superiority by just assuming an actual transaction.

Suppose the Simmons Hardware Co. were to sell a bill of goods to the J. B. Lamble Hardware Co. here in Washington. If that were done in England, it would be financed by a bill of exchange. Those goods would be sold through the Philadelphia branch of the Simmons Hardware Co. That bill of exchange would be drawn on the lithographed billhead of the Philadelphia branch; it would bear the serial number of the Philadelphia branch of that concern.

Now, that would be proof that it was a transaction between two merchants, a wholesaler and a retailer; that would negative the hypothesis that it was for borrowed money, because Lamble would not dare go to Simmons and ask to have an accommodation bill drawn on them, as their acquaintance is a business acquaintance, and such a proposal might and doubtless would lose them Simmons's confidence, and if Simmons should do it and that became publicly known it would destroy public confidence in both firms.

Another evidence that this represents a real productive transaction would be the fact that invoices never figure up even amounts, like finance deals. In finance men borrow money in $2,500 or $5,000 amounts, even amounts, whereas invoices figure up odd amounts, or so many dollars and so many cents. You have abundant proof right on the face of that instrument that it represents a real productive transaction, and credit, if used for production, can never bring about inflation; in fact, it has diametrically the opposite effect.

McLeod says that "deposits are nothing but bank notes in disguise."

I want to read just a short statement from the Bullion Report. The bullion committee's report is referred to as the Bullion Report; that was a committee appointed by the British Parliament in 1810 to study the conditions in England where they were suffering from the same conditions after the Napoleonic wars that Europe is suffering from right now. The Bank of England's notes were then at a discount, because the Government of England in 1797 had made the Bank of England make it a loan of £1,000,000, which took almost the last vestage of the gold that the Bank of England then had, and in order to compensate the bank for this forced loan, the Bank of England notes were, for the first time in its history, made a legal tender in the payment of debts, and they immediately fell below par.

The same paternalistic aid was offered to the Scotch banks, which they declined. Their notes remained at par during the whole of Napoleon's wars.

The Bullion Report lays down this sound principle of economic law—you will find it referred to in McLeod's Theory of Credit [reading]:

"There can be no possible excess in the issue of Bank of England paper so long as the discount of mercantile bills is confined to paper of undoubted solidity arising out of real commercial transactions and payable at short and fixed periods."

Mr. A. Barton Hepburn, who appeared before the subcommittee of your committee here on January 7, 1913, during the Sixty-second Congress, when Senator Carter Glass was chairman, used this statement, which shows you the condition of a sound bank in France respecting the Lyonnaise which you will find at page 6, Banking and Currency Reform, House hearings 1 to 13, 1913 [reading]:

"Some years ago I called on the Credit Lyonnaise in Paris, one of the great banks of the world. The gentleman with whom I was in conversation passed over to me their last bank statement. I glanced it over and remarked:

"'Well, you owe a great deal of money.'

"'What is that you say?'

"'You owe a great deal of money.'

"'What do you mean?'

"'Your deposits are about $350,000,000.'

"'Oh, yes; we owe depositors, but we could pay them easily if we had to.'

"'Could you? How long would it take you to pay them in case of necessity?'

"'The element of time would not enter into the matter at all, except in so far as it required time to perform the physical labor.'

"'But how; tell me just how you would do it.'

"Almost thinking I was questioning the condition of his bank, he took the balance sheet and proceeded:

"'Well, we have so much cash; let us deduct that.'

"'Yes.'

"'Then we have so much due from banks. We could value against that and deduct the same.'

"'Yes.'

"'We have so much exchange, acceptances, etc., which have an immediate market. We could realize upon and deduct that.'

"'Yes.'

"'Now we have reduced our obligations in this manner to something less than $200,000,000, and we have very, very much more than that in commercial paper.'

He meant bills of exchange when he said commercial paper.

"'Yes; but how are you going to pay debts with commercial paper?'

"'Take it to the Bank of France and get currency for it.'

"'Could you do that?'

"'Certainly.'

"'Is there any law which would compel the Bank of France to discount your commercial paper without limit?'

"'Law—yes; the law of its being; that is what the bank was created for.'"

Baron Brinkard, when he was before the monetary commission and testified said the average maturity of the paper purchased by them was from 45 to 55 days, and that statement was made to the monetary commission about the time that this statement was made to Mr. Hepburn.

The average maturity of the Bank of England's portfolio was 7 days, and that of the Bank of France 14, as testified by Mr. George M. Reynolds before the Senate Banking and Currency Committee on the Federal reserve bill.

The average maturity of the portfolio of the Credit Lyonnaise of France was about 26 days.

The CHAIRMAN. What do you mean by "average maturity"?

Mr. MILLIKEN. Forty-three per cent of the Credit Lyonnaise's portfolio had an immediate maturity, which included cash in its vaults and deposits with the Bank of France, amount due from banks, exchange, acceptances, etc. Then it had other paper with various maturities running from 5 to 60 days, say, and the whole averaged a maturity of 26 days.

As I remarked, Baron Brinlard set forth the average maturity of the paper they bought was 45 to 55 days, showing you the short maturity of that bank's paper.

The whole policy of the Federal reserve system is to get on that sound basis that England and France were on before the war. Paper of such short maturity is worth nothing in agricultural production; absolutely nothing. None of the farmer's credit activities reproduce themselves in less than six months, outside of cattle finishing. You may find a few operations that would mature in 90 to 120 days—for example, finishing of cattle. Those are the only activities, whereas in growing beef cattle the maturity is from 20 to 30 months.

If we hope to place ourselves on a sound financial basis we must establish discount markets for productive agricultural paper.

I now wish to point out the analogy between the use of a big life insurance company to serve our rural credit system in the capacity which the acceptance house serves the British commercial credit system. Commercial men are the principal purchasers of the standardized British bill of exchange. They fill their portfolios with such bills, instead of depositing in banks as we do. But such bills are much larger in amount and are of a shorter maturity than will be our rural bills of exchange.

The principal markets for our rural bills of exchange will be among the wage earners of our financial and industrial centers and the farmers themselves. It is necessary, therefore, to employ an agency which already enjoys the confidence for stability of the class of persons we hope to have as investors. Such an institution must be solvent beyond question and engaged in a business where the hazards are few. No other institution so completely fills these requirements as the big life insurance company.

Let me contrast the financial stability of a life-insurance company with that of a deposit bank. A bank's obligations are virtually all payable on demand. Any other institution with unpaid obligations is regarded as insolvent, but the only way in which a bank can make money is by assuming unpaid demand payable obligations. In order to maintain its solvency a bank must cover its borrowed capital with paper representing production and payable at short and fixed periods. But the insurance obligations of a life insurance company are deferred for years in the future, and it is based on the stable law of mortality, which operates with a uniformity approaching the fixed law of gravity.

Therefore destroy confidence in a bank and you ruin it financially; but destroy confidence in a life insurance company and you render it relatively stronger financially. That was proven in the 1905 life-insurance investigations. Many lapsed their policies, to be sure, but those who held on to their policies were paid larger dividends than they ever received before.

A united press, day after day, for months gave the widest publicity to those scandals. No financial institutions in this country ever received such a castigation as was administered to those companies by the press at that time. Had the same thing happened to the banks, I doubt if 5 per cent could have survived; but all those life insurance companies came out sound and strong and have paid their policy holders larger dividends than they ever paid before. That was the supremest test ever applied to financial institutions.

Another contrast between a bank and life insurance company lies in the disparity between their security capital and trust funds. It is seldom you find a bank whose trust funds are ten times its surity capital, whereas the mutual life insurance company has no security capital. Premiums saved and properly invested is all the security the policyholders need. Of the six companies which can accept this charter, all are now mutuals. Three were organized as mutuals and have always remained such, while the other three organized with capital stock aggregating $305,900, which has since been retired, thus making them mutuals.

One of those companies created $109,000,000 of new capital last year, that being the difference between its receipts and disbursements. That sum is in excess of the average yearly profits of the Federal reserve system. But the profits of the Federal reserve system are converted into the Treasury yearly, while the increased wealth of that life insurance company is cumulative. That one company could be worth more to our rural credit system than the whole Federal reserve system, as the latter must carry very liquid assets, because its borrowed capital consists almost wholly of bank deposits—deposit of deposits—and if it fails to keep its portfolio filled with liquid assets it may meet with disaster.

The insurance league is required to invest $2,400,000 in the branches of the credit society and elect its auditors, who have full power to inspect the credit society and hold one of the keys to its security vaults. The league can neither accept nor reject a loan made by the credit society. The fact that the league would have accurate information as to the conduct of the business of the credit society and its capital was guaranteeing every piece of its paper is bound to inspire confidence in the same.

I beg to contrast the European credit institutions with our own in the matter of paternalism. Theirs are self-inspected, while ours are all Government-inspected. Take the Bank of England and Bank of France, for example, which are the sole depositaries of their Governments, yet those Governments do not spend a penny to inspect them.

The same thing is true respecting the rural credit societies all over Europe, including paternalistic Germany. Let me read the question and answer to the head of that system while before the commission we sent abroad in 1913. You will find it on page 299, Senate document No. 214, Sixty-third Congress, first session. [Reading:]

"Q. Are the Raiffeisen banks subject to government inspection?

"A. No; this is their special feature and characteristic."

On page 25, same document, you will find this statement from the Hon. Leone Wollemborg, ex-minister of the treasury of Italy, and founder of the Italian rural-credit system, at which he has spent 40 years of his life, and is the highest living authority on rural credit. He said:

"But, when the loans are strictly limited to people residing in the same locality, all can become vigilant and act as inspectors for their own protection. And you will find that inspections thus exercised by the members of the rural banks is far superior to any government inspection, since each man has been rendered personally liable and is acting in his own interest. As one of the farmers once said to me, 'We are 100, all acting as spies on the others to see that nobody does anything wrong.'"

Let me quote further from that excellent address to our commission. On page 26, same document, you will find this statement [reading]:

"There is another psychological factor which goes to insure the safety of these banks, and that is public opinion. It is a well-known fact that public opinion is always inclined to side with the weak against the strong, and as, rightly or wrongly, the debtor is generally considered the weaker party, he usually has public opinion on his side. But in the case of the rural bank the situation is reversed. The heads of the families in the village constitute the membership of the rural bank, and as they are all interested in seeing that the loans for which they are severally and collectively responsible are paid, public opinion in this case is on the side of the creditor and not the debtor."

I beg to inject at this point a bit of my own personal experience, as it so thoroughly corroborates the statement of the eminent authority from which I have read. In my teens I keep books in a general country store. The soil was rich, but the lands were owned in large bodies; probably 75 per cent of the population were tenants or the families of tenants. It was not infrequent for a tenant to skip out overnight, leaving the "rich" merchant or "rich" landlord in the lurch; and, what is worse, his fellow tenants would abet his action, for without their connivance it would have been impossible for him to have left the community without their knowledge. Suppose those tenants had been jointly and severally liable for the credit obligations of each other, as is the case all over Europe, then public sentiment among them will be reversed.

Let me narrate another bit of my experience at that time. We sold a Standard cultivator for $37.50, which cost us $25, to those tenants, taking their notes bearing 10 per cent interest and a lien on the cultivators. In the fall of the year when I would go out to make collections I would find at least 75 per cent of those cultivators in the fields where the last furrow was plowed, taking all the rain and sunshine. The deterioration from the elements exceeded the wear in making those crops. Such waste does not occur in countries with a cooperative or unlimited liability credit system, because the thrifty make the improvident take care of the things bought on the community guaranty. No people can always practice the awful waste of this country.

I next come to the question of authority to be given those in control of these institutions. As the fundamental principles of these institutions were taken from the principles of the Bank of England and Bank of France, the two most important public-service corporations in the world, I beg your indulgence while I briefly consider them. Napoleon created the Bank of France in 1800. That act alone was enough to immortalize him. The philosophy incorporated in that charter has revolutionized the credit institutions of France, a country which has the soundest and freest credit institutions in the world.

The charter of the Bank of France authorizes it to do a banking business. There is scarcely a single limitation on such authority. Then a "bank parliament" was created to legislate for the bank, and it was given a 20-year legislative respite, during which period the French Government parliament could not legislate for it. In considering the control of any corporation, we must go to the very source of control, the voting unit which elects its legislative body, for the director of a corporation may be relied on to execute the will of those electing him to office if such electors have a common purpose to be served by the corporation. There are just 200 voting units with the Bank of France; no more, nor no less. Its 15 directors and 3 censors are elected by its 200 largest stockholders. But those in control will not permit any but a great merchant to come in that 200 class. It has 32,000 stockholders who have no voice in control. Its governor, or chief executive officer, is chosen by the President of France, but he must choose from three names furnished by the minister of finance, and the latter must select three names who owns 100,000 francs of the bank's stock. That meant an investment of $86,000, according to the value of the stock in 1908, when the Monetary Commission was abroad. So it would make no difference whether the President of France, the President of the United States, or the King of England elected that official, he would serve the same interest—French commerce—because none others are eligible to hold the office.

The electors of the Bank of England comprise approximately 300 great merchants. It has 17,000 stockholders who have no voice in its control. The electors of the Bank of Belgium comprise 528 great merchants. It has 11,000 stockholders who have no voice in control, except at confidence elections they may disqualify a director and remove him from office. Not one of these three great corporations has ever had a scandal in its management, though the Bank of England has been in operation for more than two centuries. The reasons for this are that each was given full power to do a banking business, and the Parliaments which created them created "bank parliaments" to legislate for them, and each was given a legislative respite during which period the Government Parliament could not legislate for them. Napoleon had to go to England for examples in creating the Bank of France, for that was the only country which then enjoyed free credit institutions.

Congress may legislate until eternity and it could not more effectually Germanize our credit system than it has done through the Federal reserve system. "Ferboten" (forbidden) and distrust disgrace every page of that act. Consequently those responsible for its administration are forced to come to Congress continually for the removal of this and that restriction and for additional

authority. And this tends to further establish the legislative oligarchy in Washington. It is a repetition of the system of the Bourbon Kings of France.

This spirit of legislative distrust did not actuate Congress during the early years of the formation of the Republic. At that period Congress trusted others, as may be observed by an examination of the charters created then. I refer to page 460, volume 6, United States Statutes at Large, private acts of Congress, to the creation of the Potomac F.re Insurance Co. on March 2, 1831. Congress gave that corporation full power and authority to do a fire insurance business, with but a single limitation, namely, that no policy should exceed $10,000 in amount. Congress also created a "bank parliament," composed of responsible stockholders, to legislate for the corporation. But by that act Congress made czarism in control impossible. Let me just read section 7 of that charter [reading]:

"*And be it further enacted*, That every subscriber shall be entitled to vote by himself, his agent, or proxy appointed under his hand and seal, attested by two witnesses, at all elections made by virtue of this act; and shall have as many votes as he holds shares, as far as ten shares; one vote for every five shares which he may hold over ten shares as far as fifty other shares; and one vote for every twenty shares which he may hold over sixty shares."

Under that section if 50 men had owned 60 shares each of that stock they could have cast 1,000 votes for the directors; whereas if one man had owned the other 5,000 shares he could have cast but 267 votes. This protected the minority against the majority. That corporation operated here in the District of Columbia for 69 years without any sort of Government supervision or regulation, and it paid larger dividends to its stockholders than it has since paid under the system of Government regulation since devised. But Congress, the last time it amended that charter, repealed section 7, thus making it a stock-controlled corporation instead of a responsible stockholders' control, as originally provided. One man now owns a majority of that stock, which carries the control. So the directors are dummies to do the bidding of the one man who controls.

Czarism or one-man corporate control can just as effectually be brought about by a multiplicity of voting units as through stock in the hands of one man under a law permitting the stock to control. This is illustrated by the present system of control of the so-called mutual life insurance companies. I refer you to the testimony before the Money Trust investigation, Sixty-second Congress, Volume II, page 1306, when John C. McCall, second vice president of the New York Life Insurance Co., testified that at the last three elections of the directors of that company the following number of votes were cast: 62, 32, and 41, respectively. He testified that the total number of policyholders at that time was 900,000, each policyholder being entitled to cast one vote for its directors. That company has now some 1,600,000 policies in force. It is a farce to call that an election by policyholders.

I beg of you to bear with me while I analyze the control of that mutual life insurance company in contrast with the control of those three great European banks. Let me consider the value of the voting unit in each. That is, the value of each vote to the whole vote which may be cast for the directors. The value of the voting unit with he Bank of France is one-half of 1 per cent; that of the Bank of England approximately one-third of 1 per cent; and that of the Bank of Belgium one-fifth of 1 per cent, while that of the New York Life is one-sixteen thousandth of 1 per cent. Where the value of the voting unit is as small as with the big mutual life insurance company the elections go virtually by default.

Mr. BLACK. If I may ask a question there?

Mr. MILLIKEN. Yes, sir.

Mr. BLACK. In making any comparison as to the personnel of the control, I do not see where that would differ in form very much, for instance, from the Bank of France by 200 merchants and of the Bank of England by 300 commercial men. Now, you have control of the mutual life insurance company by a small number of the big men. I am not comparing the personnel of the two or whether they are selected as they should be, but as a matter of fact this proxy business has worked out in practice so as to give a very similar control of these mutual life insurance companies to that used by the Bank of France and the Bank of England.

Mr. MILLIKEN. I agree with you that the result is the same, so far as the number of votes ares concerned. But there is a vast difference in the personnel of those votes. With those three banks there is a very limited number of votes

which may be cast for the directors, each elector being known to all the other electors, each owning a considerable interest in the bank with a much larger interest in commerce which the bank is created to serve, with no opposing interests. Moreover, if one elector should fail to attend an election, he knows no one else can cast his vote; yes, he knows no one with an opposing interest can cast a vote at the election. The absence of one elector would merely increase the value of the votes of those in attendance.

But how vastly different it is with the big mutual life insurance company with, say, a million policyholders, each entitled to one vote. Some voters are millionaires and others poor. Some are money lenders, who seek control to use the vast funds as deposits to their own concerns, while others are borrowers. Some are promoters, who seek control of the company as a "feeder" or to digest indigestible securities, while others are investors. Some hold old policies with considerable cash or reserve values, while others hold new policies with little or no cash values. The vast majority are unknown to the others, and the average financial interest of each with the company is so small that none manifest any interest in the management except those who wish to obtain control to use the company as a "feeder" to some other interest. No one can tell when some new clique will form to oust those already in control. It is not infrequent for those in control to fight among themselves. In fact, most of the scandals result from these inside fights. When the upheaval comes the innocent must suffer with the guilty, for the simple reason the innocent have no means of placing before responsible policyholders the wrongdoing which they know exists. Make it possible for the worthy men in the employ of those institutions to place the facts before responsible premium payers who have authority to act in righting wrongdoing and 90 per cent of the graft would be eliminated.

Mr. BLACK. But, then, your electors are limited in number, are they not?

Mr. MILLIKEN. Yes, sir.

Mr. BLACK. As to the Bank of England and the Bank of France?

Mr. MILLIKEN. Yes; the electors are limited, of course. But they have the same interest to serve.

Mr. BLACK. Every stockholder is not an elector?

Mr. MILLIKEN. Oh, no; the stockholders, as I remarked, are over 17,000 in the Bank of England, yet they have no voice in the control at all, and there are 32,000 stockholders in the Bank of France, who have no voice in its control.

Mr. BLACK. What is the system here, Mr. Milliken?

Mr. MILLIKEN. The system of control provided for the insurance league in this bill is the adaptation of the principles underlying the control of those great banks, so far as they are applicable to a life insurance company. The fundamental principle is a responsible policyholders' control to be exercised in a practical manner. The value of the voting unit is increased in two ways, first, by time insured. No one is permitted to vote until he has been insured for 10 years. By advancing the age of each voter 10 years from the time he becomes insured to the time he may exercise the voting privilege, we give each voter such a financial interest with the league that he will look after the management instead of lapsing his policy in the event of a rumor of mismanagement. The second way of increasing the value of the voting unit is by the classification of the voters into positive and negative classes and application of the Federal principle of election. The positive voters vote by States and the negative by counties. Instead of electing the directors collectively the Federal principle is employed of electing them by districts, so as to locate responsibility.

A positive elector is one holding a policy with a cash or reserve value of $5,000 and upward and a negative elector must hold a policy with a cash value ranging from $500 to $5,000. When a negative elector's policy becomes worth $5,000 and over he changes from the negative to the positive class. The positive electors of one State may elect one of their number as trustee (director) for that State provided there are at least 20 positive electors residing therein. The negative electors vote at confidence elections by counties to disqualify any positive elector residing therein.

To illustrate how this would work let me assume that Texas would have 50 positive electors in the league. Any one or all may become candidates for trustee (director) from that State. All elections are by ballot through United States post, so that any frauds may be prosecuted under the postal laws. The bill is specific in prescribing the manner in which such elections

shall be conducted. In order to become elected to that office one of these 50 must secure a plurality of the votes cast by the 50 positive electors of Texas. They would comprise the prominent professional and business men of Texas, men who have a State-wide acquaintance. Many would be personally known to each other, and in order to cast a ballot intelligently for any person you must know something about him and his qualification for the office.

But some of those 50 men may be unworthy of that trust, a fact which would be best known to the negative electors in their respective counties. Therefore the bill provides that the negative electors of any county may call a confidence election to disqualify any positive elector thereof whom they regard as unworthy of the trust. The effect of a confidence election would result in disqualifying such positive electors from thereafter voting for trustees or holding such office. If the trustee himself were thus disqualified, it would result in causing a vacancy in that office, which would have to be filled by the remaining qualified positive electors of that State. This is analogous to the system of control of the Bank of Belgium. Its control, as I have said, is vested in its 528 great merchant electors, except that its 11,000 stockholders may at a confidence election disqualify a director. See Banking in Belgium, by Charles A. Conant, of the monetary commission series.

To carry this illustration further, let me assume that John Doe, of Dallas County, was the Texas trustee. Suppose, also, there was a false rumor in circulation to the effect that the league was being mismanaged. In which event John Doe would doubtless call on the negative electors of Dallas County to meet and select a committee to engage an expert accountant to investigate the rumor. By thus localizing the activities of the negative electors they could, and doubtless would, act in unison for their self-protection, because a great majority of them would be known to each other and therefore have confidence in the experts they engaged. If the rumor were false, they would accomplish nothing by punishing John Doe; but if it were true, John Doe would resign without the expense of a confidence election in that country to depose him, for he would realize the futility of resisting the efforts of responsible policyholders who had acted in such a methodical manner. This is just common sense applied to the control of a big mutual life insurance company, a control which can be made far more effectual than the control of any government. But common sense principles must be applied to accomplish the desired results. As I have already said, there has never been a scandal in the control of any one of those great banks, and I have just as much confidence in an American citizen as I have in the citizens of any other country.

To carry this illustration still further, let us suppose that the negative electors of the whole State were permitted to vote at such confidence election to disqualify a positive elector of Dallas County. Such election would go by default, the voters would be too numerous and widely scattered to produce the desired result, the ascertainment of the exact truth respecting the management of the league and a remedy to cure a wrong, the expulsion of an unworthy trustee. But suppose that the negative electors of Galveston County, 300 miles away, should be dissatisfied at the action of the negative electors of Dallas County. Then they would have a remedy, for they could call a confidence election for Galveston County and disqualify any positive electors thereof in whom they did not have confidence, and thus prevent them from voting for John Doe's reelection. So, likewise, could the negative electors throughout Texas hold confidence elections in their respective counties anad disqualify such positive electors as they each regarded as unworthy. It is only by the application of these principles of local self-government that the proper control of those institutions can be effected, and it must be done by the men who pay the premiums.

I might call your attention to the fact that the companies carry their galleys by counties instead of by cities and towns. That is, they have all the policyholders of each county set up in one galley, so that they can in a few minutes obtain a list of those in any one county. The company accepting this charter could designate the positive electors with a "P" and the negatives with an "N" with little trouble and thus be able to see who the voters were in each county.

Let me direct your attention to another fact which is peculiar to life insurance. I have already shown you how wide publicity given to life insurance scandals did not affect the financial stability of these institutions. But such publicity renders it almost impossible for them to procure new business. The

reason is that the taking of life insurance is the most unselfish financial act one ever did, for he must die to win, the statement of the agent to the contrary notwithstanding. Therefore, in order to induce a man to do the unselfish thing you must appeal to him personally. Now, when the company is under fire the agent can not secure the desired interviews. The prospect can turn the agent down so hard that he has no way to come back.

In 1907 the Mutual Life of New York wrote but $50,000,000 of new business, though it then had agency forces all over the world.

The CHAIRMAN. What happened then?

Mr. MILLIKEN. Well, the undesirable publicity it received during the 1905 investigations rendered it almost impossible for it to procure new business.

The CHAIRMAN. When the scandal occurred?

Mr. MILLIKEN. Yes. Its new business fell from $300,000,000 in 1904, the year before the investigations, to $50,000,000 during 1907. The same thing happened to the other companies investigated. For instance, in 1904 the New York Life wrote $345,000,000 of new business, which fell to $154,000,000 in 1907. The Equitable wrote $306,000,000 of new business in 1904, which fell to $73,000,000 in 1907.

Contrast the small volume of new business that year for those three companies with that of two other companies, the Great Western Life of Kansas City and the State Life of Georgia. The Great Western did not organize until the 19th of April, 1907. Now it had to organize an agency force and during the eight months that it operated that year (1907) it wrote $25,500,000 of new business, and the State Life, another new company, wrote $29,000,000 of new business the same year.

There is no institution which is so absolutely dependent on public sentiment for getting new business as the life insurance company.

This brings me to the companies which are eligible to accept the charter of the proposed insurance league. There are just six of such companies. Those companies control from a half a billion to one billion of assets each. I do not blame them for getting control. There is scarcely a man of public spirit in the land but what would like to have such control, some for one purpose and others for other purposes. This bill purposes to decentralize the control of the company which accepts the proposed charter. Therefore I do not expect the gentlemen who now control those companies to busy themselves by advocating this bill which would deprive them of such opportunities for wealth as they now possess.

During normal times each of them is controlled by a small coterie of men at the home office, but when you arouse the agency forces they control. We had an illustration of that in the Equitable fight. At that time the Equitable was controlled by $51,000 of its stock, which was held by Jemmie Hyde. Jemmie gave a $100,000 banquet for a French actress at which he drank out of her slipper and the press gave publicity to the facts. That did not set well on the stomachs of the hard-working agents who produced the new business for the company, so they inaugurated a campaign for the mutualization of the company to deprive Hyde of his privilege of electing the company's directors with the bare majority of the stock held by him. The agents not only succeeded in mutualizing that company but Hyde received such undesirable publicity that he left the country.

Mr. BLACK. On that point, let me interrupt you to ask this question: Suppose that these few companies who are eligible to accept this charter, should none of them agree to do it, then your bill would be left without an effective method of functioning?

Mr. MILLIKEN. You are correct. I am glad you brought that point up. The agents of those companies are always interested in clean home office management. A scandal at the home office ruins their business, and if you can show them a better way of preventing their occurrence you may rest assured of their support. Only two years ago the president of one of the big mutual life insurance companies had a son who was speculating on the company's securities, and its general agents marched to the home office on election day and deposed the president, and he had been in office more than a quarter of a century. The general agents of those companies have their life's work tied up in renewal contracts with those institutions and are therefore selfishly interested in clean home office management. They are the ones who come in contact with the vast body of policyholders.

This campaign among the agents should be conducted with private capital instead of Government funds. Therefore the bill should be so amended that

none of the funds become available until one of those companies has accepted this charter. If we can not get private capital to carry on that campaign, we should not ask the Government to do it. That is a question of educating the agents of those companies as to the purposes of the proposed charter.

Mr. DUNBAR. Who is going to the agents?

Mr. MILLIKEN. Our organization. That is just what we contemplate. There is no use in going to the high officials. Suppose one of those companies should come here and say it would accept the charter. Then there are Members of Congress who would say that it was in the interest of the big insurance companies. Until Congress passes this bill there is nothing to offer those companies. Therefore, as you gentlemen can not promise them anything, there is but one way to do it, and that is to leave it to a campaign among their agents after Congress has acted. That is the only solution I see of the problem. We must have a definite proposition to offer them, which must be approved by the Secretary of Commerce before it becomes effective.

If Congress were to desocialize the control of one of those big life insurance companies, it would do more to destroy the socialism in this country than any other one thing. It is not infrequent to hear some one express the fear of socialism coming about in this country. Why, it now exists all over this country. It is Government inspection of everything. That is as bad in the States as it is in the National Government. There is no Government inspection of banks and insurance companies in England and France. I tell you that a business which is not worth looking after is not worth patronizing. The policyholders of our life insurance companies would look after them if you should provide a practical method by which they could do it.

You ask me why I predict that if Congress should desocialize the control of one of those companies it would accomplish the results I claim will come about. I so predict because that is precisely what happened in France after Napoleon set the example in the Bank of France. You can not teach the people philosophic principles by preaching. Philosophy must be practiced in order to have the desired result. Dr. Liesse, the eminent French scholar and monetary writer, contends that it was 63 years before the French parliament applied the philosophic principles incorporated in the Bank of France's charter to all the credit institutions of France. You will find that in Liesse's A Century's Evolution of French Credit, which was made a public document by the Monetary Commission.

Mr. Chairman, let me call your attention to just one socialistic law in your State. I have reference to the law which requires your legislature to designate the very securities in which the savings banks shall invest their funds. That is socialism run mad. The legislator has no time to perform that administrative act. But suppose the securities which the legislature declares to be a safe investment to-day are good and safe, why, to-morrow something may occur to make them unsafe, and you have a law on the State book which speaks a fallacy.

Let me observe the operation of that law. When Theodore Roosevelt was governor, the Chicago & Alton Railroad bonds were so made a legal investment for those institutions. Mr. Roosevelt approved that act, but he was no bond expert, so he had to rely on some one in whom he had confidence. E. H. Harriman became his adviser in the matter, but the governor did not know he had a personal interest in the matter, and Harriman took pains to not let it be known he had bought up that road at that time. That was one of the best-paying railroads in the country. It had never failed to pay its 7 per cent dividend. But Harriman gutted it. After obtaining control of it he issued $68,000,000 of 3 and 3½ per cent bonds. That was the first time 3 per cent railroad bonds had been issued, and that would have been impossible had the road not had such a fine dividend-paying record. The last quotation for the 3½ per cent bonds of that road was 36 cents on the dollar. The savings-bank depositors were the losers of the difference between what Harriman received and the present worth of those bonds.

Mr. BLACK. Mr. Milliken, right there, though, it is just those transactions that have brought about what you might term the paternalistic legislation. For instance, Congress would have much preferred to have left to the corporations the issuance of their securities, the floating of their own loans. That would be much more desirable, and yet such transactions as Harriman carried on in the Chicago & Alton case makes it necessary for us to leave with the Interstate Commerce Commission the absolute control. Otherwise we do not see how the public could be protected.

Mr. MILLIKEN. You are not going to solve the socialistic problem by having more socialism. I agree with President Harding that we want less business in the Government—just as long as you have it——

The CHAIRMAN. That is, less Government in business?

Mr. MILLIKEN. Less Government in business. We want no Government in business; we should rid business from the Government. I say the men who pay their hard-earned money into those life insurance companies should control them, and if you will devise a practical way by which they could control them, they would do it.

Mr. BLACK. Of course; that is a problem.

Mr. MILLIKEN. They will do it if you apply the principles of local self-government to their control. Do away with the existing farce by which cliques control them to serve their selfish interests.

There is another aspect to this question, that of the loss of public confidence in public officials who make honest mistakes in performing duties requiring years of business experience. That was not the case with Mr. Roosevelt in the Chicago & Alton bond deal, though the public lost three times as much by that mistake as it did through the mistake of Secretary Carlisle. To engender distrust in a public official is a most serious thing.

I shall now discuss the rural-credit feature of this bill. Of course, that charter gives our responsible farmers full and ample power to do a general banking and credit business, with only two limitations.

Mr. BLACK. Before you go to that point you are just entering upon I suggest that the committee adjourn until next Monday to allow the members to attend to matters of importance in the House. (After consulting among the members of the subcommittee.)

The CHAIRMAN. The subcommittee will now stand adjourned until 10.30 o'clock next Monday morning.

(Thereupon, at 12.30 o'clock p. m., the subcommittee adjourned to meet Monday, August 15, 1921, at 10.30 o'clock a. m.)

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Monday, August 15, 1921.

The subcommittee met at 10.30 o'clock a. m., Hon. Clarence MacGregor (chairman) presiding.

STATEMENT OF MR. R. C. MILLIKEN—Continued.

Mr. MILLIKEN. Mr. Chairman, I wish to call your attention to the fact that France not only limits the amount that a wage earner may deposit in any one or in any number of savings banks during a single year to 1,500 francs—$300—but she prohibits the men who run those savings banks or who control those savings banks from investing one penny of those deposits. The Caisse des Depots et Consignations is the French central bank for savings banks. I am quoting now from volume 1, page 304, of the Monetary Commission's series. The witness who was before the Monetary Commission was M. Delatour, who was the directing head of the Caisse. The question was:

"Q. Then, as a matter of fact, this is a central bank for the savings banks of France?—A. Precisely."

Then you will find on pages 307 and 308 the statement of the witness to the effect that all deposits of the savings banks of France must go to the Caisse for investment. That is to prevent inflation by preventing increased motion, you might say. The savings bank with us is used as an investment institution. The French are taught to use a savings bank until the depositor has accumulated a corporate unit—$20 to $200—and then become an investor, while the wage earners of many of our industrial centers know nothing but the saving bank as an investment institution. Now, France, by her sound policy, has made that a country of the greatest investors in the world, and she has at the same time prevented inflation.

I would like to show you how England operates on such a small amount of bank deposits. I quote from the testimony of Sir Felix Schuster, from whom I quoted the other day, on page 40:

"The total liabilities of the joint-stock banks in England and Wales would be about £700,000,000, those of the United Kingdom about £900,000,000, but Scottish and Irish banks are subject to special conditions.

"Q. You refer to the total deposit liabilities?—A. Yes; the deposit liabilities, but then several amounts are counted twice over. Say we have a balance belonging to a country bank of half a million; that half a million would appear in our liabilities, and that liability would also be represented in the figures of the country bank which keeps the account with us. Again, that might represent the liabilities of a third bank. Therefore in reckoning the total liabilities at £700,000,000, you have to make very large allowances. I think when you come to analyze the actual amount due to the public you will find they are very much smaller through this duplication."

Now, you might sum that up as the total deposits of all the banks of England and Wales—that is, at about £500,000,000, which means about $2,500,000,000, while our total deposits in this country are something like $35,000,000,000. Now, through the credit machinery of London there were financed three-fourths of the foreign commerce of the world, but it was not through banks. It was in the open discount market through bills of exchange. While I am on this point, I want to show you how free the credit institutions over there are. To show you how free they are from governmental interference I will quote from the testimony of M. Pallain, governor of the Bank of France, page 189 of the National Monetary Commission series:

"Q. Is the Bank of France ever attacked in the controversies between political parties?—A. No charge has ever been made that the bank favored or aided any political party. There was never any claim that politics enters in any degree into the management of the bank. Except for the renewal of the charter in 1897 no legislation affecting the bank has been enacted since 1857. There is no sentiment for any change in banking methods nor for any new legislation. It should be added that neither the governor nor deputy governor is permitted to be a member of either body of Parliament."

Now, contrast that with our political system. The Federal reserve act has been in operation less than seven years, and the amendments to that act already exceed nearly twice the original wording of the act. In the last Congress 66 bills and resolutions were introduced to amend that act; yet France, from 1857 to 1897, a period of 41 years, during which the Government changed from a monarchy to a republic and had a most expensive war, the Franco-Prussian war, had not one scintilla of legislation by the French Parliament. That was simply because the bank was given authority to do a banking business, and then the bank parliament that Napoleon created legislated for the institution.

Mr. DUNBAR. You have spoken a great deal about the great efficiency and effectiveness of the Bank of France and about its being founded upon sound economic basic principles. Now, why can not that bank so help the Government of France as to enable her to pay the interest on the debt she owes us?

Mr. MILLIKEN. France suffered more than any other country from the war, and war, as you know, means waste. It has wasted the capital and wealth of the country. It is not a question of credit, for the wealth or capital of France has been destroyed. She has had to violate monetary laws in order to win that war, or to do things in violation of sound economic law.

Now, a bank can not create money. It creates credit, and when the people need money it has to be coined out of metal. The Constitution gives to Congress authority only to coin money, not to print it. It gives Congress authority to coin money, not to make it. It gives it authority to coin money out of gold and silver. Those are the words of the Constitution. Now, we need this institution to create liquid assets, to meet the requirements of both the insurance companies—and that includes the War Risk Insurance Bureau and our savings banks. Deposit banking, as the Comptroller of the Currency said within the last 10 days in a meeting at Philadelphia, is the worst overdone business in the country.

The CHAIRMAN. You said "this institution." What do you mean by that?

Mr. MILLIKEN. This rural credit system. Now, I am going to read from a speech made upon this bill by Mr. McFadden:

"It may be asked, and properly so, where will be the market for such paper. This market, like the market for every other commodity, must be developed through sound business methods. The wage earners of our industrial centers and many of our corporations should carry it, and they would do so if it were properly presented to them. I maintain that our life insurance companies should carry at least $1,000,000,000 of such paper to meet the banking obligations under their guaranteed cash-surrender-value policies. And this applies with equal force to the policies issued by the Government under the war risk insurance act. The average maturity of this farm paper will be about 11

months, and the banking obligations of the insurance companies are payable at the end of the policy year, or every twelfth month. It is obvious, then, that this paper just meets the banking obligations of those institutions. By carrying a line of this liquid paper our life insurance companies would not be forced to throw their permanent investments on the market during a financial crisis."

Hon. Homer P. Snyder, in a speech in the House of Representatives on March 31, 1920, on this bill, gave a history of how the life insurance companies went into the banking business. I was in that business at the time. I was at that time a supervisor on the Pacific coast, and I wrote to the president of my company that it meant the death knell of the life insurance business. Mr. Snyder said:

"It was not until the year 1896 that the 'yearly guaranteed cash-surrender-value policy' became universal throughout the United States. In the summer of 1895 the Equitable, of New York, announced its intention to adopt such policy throughout the world in which it operated at that time, and it put its actuaries to work compiling data and making compilations for the issuance of such policy. The insurance press, from time to time, made mention of the Equitable's progress on the proposed new policy, until in the spring of 1896, when the New York Life announced it had actually placed in the hands of its agents sample policies and rate books containing all information as to the new policy. The Equitable then publicly charged the New York Life with having surreptitiously gotten possession of the data and calculations its actuaries had been laboring on for more than six months. It was but a few days until the Equitable placed sample policies and rate books in the hands of its agents, and when we consider that those rate books contained some 50,000 different calculations and were identical, one must conclude the two companies had access to the same data.

"The New York Life ignored the charge of bad faith made against it by the Equitable and directed its energies to the sale of the new policy, which took like wildfire. Some of the more conservative men in control of the other companies condemned the new policy in unmeasured terms and made dire predictions as to the injurious effect it would have on the business and refused to issue the policy. It may be of interest to observe that at that time there was in control of those two companies two most forceful characters, men possessed of great driving power and organizing ability, whose activities had been directed solely to the production of new business, and they produced it in such volume as to astound the insurance world of that day. One of these men was Henry B. Hyde, the founder of the Equitable, and the other was George W. Perkins, a young westerner who had so demonstrated his ability as a producer of new business for the New York Life that he was called to the home office and placed at the head of its agency department, a position he occupied but a short while until he became the dominant factor in control of the company. Neither was an economist; in fact, both were too busy at the production end to give any thought to the economic principles underlying that business, yet they are the men who are responsible for placing our insurance companies in the banking business. The more conservative men had to swallow their pride and fall into line or else lose out in the mad race for the new business. During the commercial and industrial inactivities of 1913 the demands for cash under the "cash surrender policy" became so great that the Association of Life Insurance Presidents, an association composed of the presidents of all the large companies, issued an appeal to their policyholders through the press of January 18, 1914, urging them to desist in their applications for cash values."

The Association of Life Insurance Presidents last December issued a similar appeal——

Mr. DUNBAR (interposing). What association was that?

Mr. MILLIKEN. The Association of Life Insurance Presidents. That association is composed of the presidents of life insurance companies.

The CHAIRMAN. Grover Cleveland was the president of that association at the time of his death, was he not?

Mr. MILLIKEN. No, sir; this is an association of life-insurance presidents of the big companies.

The CHAIRMAN. He was at the head of it, was he not?

Mr. MILLIKEN. No, sir. This association has been organized since Mr. Cleveland's death. He was president of another association.

The CHAIRMAN. Of life insurance companies?

Mr. MILLIKEN. Yes, sir; but after his death these life-insurance presidents formed this organization. They have issued that sort of an appeal. There is not a particle of difference between a life insurance company receiving your premium and obligating itself to return to you, upon your demand or at your option, the sum of money called the unearned premium, or the reserve, and the business of a bank. The reserve is all the money that a company is supposed to have of the policy holder, and there is no difference between that and the bank obligating to return to you the sum of money called a deposit. The only question is one of time.

In order to maintain its solvency a bank must cover its borrowed capital with liquid assets payable at short and fixed periods. For their failure to observe this law every bank in Paris, except the Bank of France, failed in 1848. See Dr. Liesse's Evolution of French Credit. The same thing happened to the Monte de Piedad, the largest bank in Mexico, which held a specie reserve of 50 per cent of its borrowed capital a week before its failure, but the other 50 per cent consisted of permanent investments on which it could not realize the cash. See Banking in Mexico, by Charles A. Conant, of the Monetary Commission series.

It makes no difference what you call the institution which is assuming banking obligations; it must observe the economic laws which are applicable thereto. Congress has no authority to enact a law which will compel a corporation organized under State law to carry any line of securities, but Congress does have authority to create the two fiscal agents provided for in this bill, which in turn can create a class of securities which will meet the banking obligations of our life insurance companies. The War Risk Insurance Bureau should comply with the same economic law which the other life insurance companies are subject to, otherwise the Government will have to come to its rescue in times of distress and provide it with funds to meet the demands of policyholders for cash-surrender values.

I will now take up the rural credits section of the bill. The fundamental principles of rural credit, as now practiced in Europe and as proposed in the bill under discussion, may be summarized as follows:

1. The application of all credit to production only.
2. Unlimited liability of members of each commune for all obligations.
3. Sound and cheap multiple insurance.
4. Restricted area of operation.
5. Banking with bills as distinguished from deposit banking.
6. An ample supply of cheap capital for the central bank.
7. Full power to do a banking and credit business with a bank parliament through which responsible farmer members may legislate for themselves without having to come to Congress.
8. Freedom from paternalism and Government mollycoddling.
9. Gratuitous expense of managing communes.

Now, on the first of those propositions, the application of all credit to production only, that is universal of all the European systems. A farmer could not go to his local commune, in any one of those countries, and obtain credit to buy a pair of shoes in the dead of winter if his feet were frostbitten. In this country the use of credit is for consumption, money with which to buy something to wear, or eat, or to have pleasure with, but if you limit credit to production when pay day comes the borrower will not only have his principal but, in many instances, it is multiplied many fold, but if it is used for consumption when pay day comes he has nothing with which to pay.

Mr. DUNBAR. You say that the basis of credit should be on production and not on consumption?

Mr. MILLIKEN. Yes, sir.

Mr. DUNBAR. How would you distinguish between the credit necessary for production and the credit as a result of production?

Mr. MILLIKEN. Well, credit for production goes to buy live stock for working purposes, for breeding, for dairying, for implements, for seeds, for fertilizers, wire for hog-proof fencing, drain tiles, and farm machinery of all kinds. Those are the uses to which this credit would be put.

Mr. DUNBAR. You said that a man could not buy a pair of shoes if his feet were freezing.

Mr. MILLIKEN. Yes, sir.

Mr. DUNBAR. It might be necessary for him to have a pair of shoes if his feet were freezing in order that his labor might go into production.

Mr. MILLIKEN. Yes; but if you use credit for consumption people will not save; deny them consumptive credit and they will make the necessary preparations. If they live in a timbered country they are going to bring in some cord wood, chickens, butter, or eggs. But their production requirements must be met if you are going to have those people prosperous and frugal.

Mr. DUNBAR. It seems to me the great difficulty would be in deciding what is necessary for productive credit, and I certainly think a pair of shoes would be necessary.

Mr. MILLIKEN. I will come to that, but that is a cardinal principle of European rural credit. The fact that we have used credit for consumption and for speculation is the cause of the breaking down of our credit system.

Mr. DUNBAR. I agree with you on that.

Mr. BLACK. Your bill would have to define what items would constitute——

Mr. MILLIKEN (interposing). Do not define the items in the bill, but let the responsible men in control do that.

Mr. BLACK. You would not undertake to do that in the bill, but would leave that to the system?

Mr. MILLIKEN. Yes.

Second, unlimited liability of members of each commune for all obligations. That is nothing in the world but the application of the first century partnership, and the twentieth century corporation is just an evolution of that partnership. Why did we develop the corporation and limit the liability to the stock subscription? It was for the purpose of getting strangers to subscribe capital, but we do not want strangers in these local associations, and that comes into the next cardinal principle, as all of the writers will tell you, the limitation of the area of operation, so that they can watch each other; have a few men in the community so that they can watch each other. Therefore when the reason for the limitation of liability in the ordinary corporation ceases to exist then the rule should cease to exist. You want those men to conserve credit. Credit is just like water. Water used in proper quantities will fruit and fructify, but water used in improper quantities will destroy. So will credit. Credit used for production is not only a blessing to the man who borrows it, but it enriches the community, the State, and the Nation.

In the organization of the Credit Agricole of France they had two classes of communes, unlimited and limited liability, but nearly all of the new organizations are on the unlimited liability plan. In France, in a limited liability commune, the member can only borrow five times the amount of his own stock, just as it is in this bill. By limiting the amount that a man can borrow you can have your limited liability communes, and they will soon find out that they have to pay for the special privilege they enjoy. That was the way it was in France, and when they started out they were nearly all limited liability communes, but they found out that they themselves were paying for the privilege, and that it was better to trust the community than to put up an amount of capital of their own to obtain this credit. I have already discussed the restricted area of operation in connection with the other, but that is a justification for the unlimited liability.

Mr. BLACK. It would be the only way you could have it?

Mr. MILLIKEN. Yes.

The next is sound and cheap multiple insurance. Europe is far ahead of us in multiple insurance, insurance for every class. I am going to read to you an article that appeared in yesterday's New York Times, headed:

"WEATHER INSURANCE TAKES STRONG HOLD—$1,500,000 WAS UNDERWRITTEN AGAINST RAIN ON JULY 4—EXPECT MORE LABOR DAY—FIVE BALL CLUBS INVEST—TEX RICKARD TOOK OUT $750,000 BRITISH POLICY COVERING DAY OF BIG FIGHT.

"Weather insurance, a novelty a year ago, has now taken a firm hold in this country and, following the example of Great Britain, Americans are now insuring every variety of event against loss by rain. More than $1,500,000 was underwritten in rain insurance on July 4, it was estimated by a broker yesterday, and Labor Day is expected to break that record. Fortunately for the insurance companies, fair weather was general on the Fourth of July, and less than $100,000 was paid to policyholders.

"Five major-league baseball clubs this season have thus safeguarded themselves on all of their Saturday, Sunday, and holiday dates, while many minor-league teams have protected themselves by Pluvius insurance, as that class of risk is termed. A British company underwrote a $750,000 rain insurance policy for Tex Rickard as a protection against financial setbacks which the elements might have caused on July 2, the day of the Dempsey-Carpentier fight. The premium of this policy was reported to have been $75,000.

"The field for rain insurance has broadened. Colleges have begun to insure their football games, and State and county fairs also have taken up the practice. Underwriters report that horse-racing promoters and excursion-boat owners are among their best clients. In the winter they insure ice-skating rinks on the temperature remaining below freezing. Summer hotels insure themselves against bad weather over week ends and department stores do the same thing on days when special bargains are advertised.

"Rain insurance is said to be like playing a 5-to-1 shot. The insurance companies charge premiums ranging from 2½ to 25 per cent, and even higher in rare instances. The usual method is to insure against one-tenth inch of rainfall during stipulated hours—usually 24, 12, 6, or 4 hours.

"Pluvius insurance policies are flexible and can be written to cover special conditions or localities or in blanket form to cover a series of events. Every class of this form of insurance is now being written. There are policies under the terms of which if the income from any event does not equal the expense incurred the company pays the difference. Another form of agreement makes the company liable for the difference between a valued amount and the actual receipts. Snow, sleet, and hail are now included in the risks.

"One line of weather insurance that is being developed is crop insurance. In this form of underwriting the companies will take either side. They will insure against fair weather when the crops need rain, or they will insure against rain when crops have been cut and the coming of rain would be a calamity to the farmer.

"Rates are based on the average rainfall in any location over a 10-year period and on the month in which the event insured is to take place. Reports of the United States Weather Bureau are taken as evidence of rainfall and policies are paid on such reports."

I want to insert in the record a statement compiled from 1918 Life Insurance Yearbook, showing different classes of insurance actually being transacted by a few of the old British insurance companies:

"NAME OF COMPANY, DATE OF ORGANIZATION, AND CLASSES OF INSURANCE ACTUALLY TRANSACTED.

"Alliance, London, 1824: Life, fire, marine, accident, burglary, fidelity and guaranty, and leasehold.

"British Equitable, 1854: Life, fire, accident, burglary, and liability.

"Commercial Union, 1861: Fire, life, marine, and accident.

"Liverpool & London & Globe, 1836: Fire, life, accident, annuity, burglary, etc.

"North British & Mercantile, 1809: Fire, life, annuity, burglary, etc.

"Northern, London, 1836: Fire, life, accident, burglary, employers' liability, fidelity, plate glass.

"Royal Exchange, 1720: Fire, life, marine, annuity, accident, employers' liability, executors, and trustees.

"Royal, Liverpool, 1845: Life, fire, accident, plate glass.

"Union, London, 1714: Fire, accident, fidelity, burglary, W. C., plate glass.

"Yorkshire, York, 1824: Fire, life, accident, employers' liability, burglary, fidelity, live stock, plate glass."

Now we come to the fifth proposition—banking with bills as distinguished from deposit banking. The Raiffeisen system of Germany started out as a local deposit banking system in 1862, but they made little or no progress until the German Government organized a central bank, furnishing the capital. The Prussian Government furnished $19,000,000 of capital to the central bank, and the Imperial Government furnished an amount, of which I have forgotten the exact figures. But France did not put her farmers into deposit banking at all when she organized the Credit Agricole, but limited them strictly to the drawing of bills of exchange. France organized a central bank and furnished it with a capital stock of $45,000,000; that is, 225,000,000 francs. That capital was raised out of the profits of the amended charter of the Bank of France. Banking with bills of exchange is the most economic system of banking. A bill of exchange drawn on a milk stool in a dairy barn is just as good as if it were drawn on a marble slab in a marble palace. You eliminate all of that expense; and in this connection it might be well to compare the expense of

the management of those rural credit societies with the expense of our banks here.

In 1912 the average expense of conducting those societies in the Province of Silesia, in Germany, was $62.50 a year. Throughout Germany it was $152 a year, as compared to an average expense of conducting the national banks in this country of $44,700. The whole turnover of those societies in Germany was over 15,000,000,000 marks, nearly $4,000,000,000. That was the enormous business they did, and every dollar going into production. By the use of bills they will get a longer time. These bills will be drawn for the time in which it requires that credit to reproduce itself. For instance, a man borrows $100 to buy a dairy cow. That will be a credit which will reproduce itself in monthly installments. It will take about 20 months. They would draw twenty $5 bills of exchange, payable monthly, and at the end of the time the cow has reproduced herself.

Now, the sixth proposition—an ample supply of cheap capital for the central bank. I have partially covered that in my discussions of the other propositions. We must have that in order to pay the expense of operating. All of those countries tried it without capital, but made no success until the Government furnished the capital for the central bank. This bill provides that a sinking fund shall be created and that one-tenth of 1 per cent of each dollar of interest shall go in there until the capital and interest that the Government has paid is fully repaid. The credit society could not pay dividends on that stock because the interest income from that capital has to be used in defraying the expense of management.

Mr. BLACK. That is a very similar arrangement to our land banks—to eventually retire the Government—but we found that the land banks, in order to function, really had to have large enough capital to enable them to make their turnover, and recently we had to provide that it be taken out of the Treasury until such time as they accumulate enough of their stock to take care of it.

Mr. DUNBAR. And there is always a demand for more capital.

Mr. MILLIKEN. Yes; and you will always have it so in all paternalistic plans. Under this bill, suppose it were doing $1,000,000,000 worth of business. Some of these farmers would not be borrowers, but they would have their commune stock, which would be invested by the farmers themselves. You would have there, in all probability, about $200,000,000 worth of commune stock, $25,000,000 of stock furnished by the Government, and $2,400,000 of capital furnished by the insurance company for the branches. This $200,000,000 of commune stock is a guaranty that the Government will not lose its investment; that must be exhausted before the Government's capital can be used, and the insurance company's capital of $2,400,000 must be exhausted before the Government's capital can be used, so that you have all of those guaranties against the loss of the Government's capital. Now, if the society were doing $1,000,000,000 worth of business they would not need that, because a small tax on that volume of business would pay the expense; but it is going to take years to get up to that, and if you did not have a supply of cheap capital the system could not operate; the credit would be so high and the expense would be so great that you could not operate.

The next is full power to do a banking and credit business with a bank parliament through which responsible farmer members may legislate for themselves without having to come to Congress. You have an illustration here of the failure to give corporations authority. They always come here and are always begging, and they have to maintain lobbies here to beg for it, and you should do exactly as Congress did 90 years ago in the creation of that insurance charter, wherein Congress gave them authority to do an insurance business and Congress should give these farmers authority to do a banking and credit business. Let me read the authority as provided in the bill. The powers that this corporation can exercise are set forth in Article II:

"The nature of the society's business shall be, and it is hereby, authorized and empowered to do and transact a general banking and credit business through its executive, branch, and commune offices, and through such agents, agencies, and auxiliaries as its by-laws may prescribe, to buy and sell and contract for the purchase and sale of securities, of moneys of the United States, and of gold bullion, to buy and own in perpetuity such real estate as may be deemed necessary for its executive and branch offices and the same to dispose of at its pleasure, to own and hold for a period not to exceed 10 years such real estate as it may acquire through foreclosure proceedings and the same to dispose of in like manner, to act as the fiscal and financial agent for the Government of the United States within the powers conferred upon it in this article and on such terms as may be prescribed by the Secretary of Agriculture and approved by the society's board of directors: *Provided*, That neither the society, its branches, communes, agents, agencies, nor auxiliaries shall issue demand payable printed bank notes, commonly denominated currency: *Provided further*, That the society's communes shall not receive deposits."

You have full authority there. Now, the creation of your "bank parliament," Article VII, section 1, "Corporate powers; how exercised" [reading]:

"The corporate powers of the society shall be exercised by a board of directors, the members of which shall be elected in the decentralized manner provided in this section of this article, and such officers, agents, and committeemen as the board may elect, except as otherwise expressly provided in this charter. The board shall have power and authority to enact by-laws, rules, and regulations for the society, its branches and communes, their agents and members, not inconsistent with the terms of this charter."

You will observe from reading this bill that it is divided into articles, that the articles are subdivided into sections, the sections then subdivided into paragraphs and subparagraphs. The first headnote of each article signifies the general subject that is treated in that whole article, and the headnotes of the sections and paragraphs denote the specific subject treated therein, and only one subject is treated in a paragraph.

For instance, take Article VII of the rural credit charter, which is divided into three sections: Section 1 treats of the central bank; section 2, under the head of "Branches," treats of the branches; and section 3 treats of the communes. In other words, there are three sets of officers and three sets of legislators. First, take the central bank, whose executive officer is a president and whose legislative body is the board of directors. When we come down to the branches the executive officer is named the manager and the legislative body is the advisory council. Then we come on to the communes or local associations, and the executive officer is the visor and the board of directors are the supervisors. The secretary of the commune is denominated the scribe. To avoid a complication of terms and names we have separate names for the three sets of officers and three sets of institutions, but the supreme legislative body is the board of directors, just like the legislative body under the original charter granted the Bank of England, which was the board of proprietors. Those are the electors of the bank. They are the persons who elect the board of directors. That, however, was found to be too large a body, and while they were given authority to legislate for the bank at their meetings every six months they finally delegated such authority to a board of directors, a smaller body. Then there is an executive committee of the board, which can perform any legislative function that the board of directors may delegate to it.

That is to correspond to the bank court of the Bank of England. That is provided because these directors will reside in the several States, and we will want them to meet once a year. They can not have too frequent board meetings, so that the bill provides for an executive committee to legislate in such manner as the board of directors may empower them to do, not inconsistent with the terms of the charter. Now, let us note the classes of these legislators. Nobody can sit on the board of directors, or on the advisory council, unless he is a member of an unlimited liability commune. He must become a guarantor of the credit obligations of his community. Now, you tell me that these men will not be conservative? They will conserve that credit, because they are behind that credit. These men can be trusted. They can be far better trusted than Members of Congress, because they will have responsibilities resting on them not resting on Members of Congress. There are some gentlemen here who have the courage of their convictions, but there are some of them here who would give away anything if they just thought it was popular. Now, that is a thing we must avoid. When they have a disaster over there, as happened in France, you do not find them applying for alms in the same way they do here. In France, in 1906, they had a frost that killed the whole grape crop of the Rheims champagne grape section. Now, did they go to the Parliament in Paris begging alms? No, sir; they went to the Credit Agricole, which is similar to the institution proposed in this bill, and they obtained 11,000,000 francs from their communes at 3½ per cent. That enabled them to take care of those vines, an industry that had been more than a century developing. If they had not had that $2,200,000 of credit to use to prune those vines and take care of them, the loss would have been incalculable.

Mr. DUNBAR. If this bill were enacted into law, do you think that the necessity for appeals from agriculturalists and all people engaged in business would be eliminated?

Mr. MILLIKEN. It is eliminated there, because they are under a system by which the farmers may organize and finance themselves for production.

Mr. DUNBAR. Perhaps they should be eliminated, but I do not believe that the appeals will ever cease.

Mr. MILLIKEN. It does have that effect in other countries where this is done. You do not find the people there doing as they do here with regard to such matters.

Mr. DUNBAR. Is not that because the governments over there have been more autocratic and that the people have to a greater or less extent been afraid of their governments?

Mr. MILLIKEN. No, sir; England is far more democratic in its government than the American Government is. The British Parliament is more amenable to public sentiment than is the American Congress, because at any time their ministry is not supported there is a dissolution of Parliament, and the members must go back to their constituencies.

Mr. DUNBAR. Did not the English Parliament appropriate £10,000,000 for the striking coal miners?

Mr. MILLIKEN. I do not know. You asked the question whether they were more autocratic in their Governments. It is true that in France, as well as England, the ministries are more amenable to public sentiment than are our own Congressmen. I believe more in our own form of Government. I believe that we have a more conservative Government. Our Government is more conservative, but when you come to the question of democratic Governments, the Governments of France and England are far more so than the United States Government.

Mr. BLACK. In the sense that they do not have the checks and balances that we have?

Mr. MILLIKEN. Yes, sir; they do not have the same checks and balances. Therefore our Government is not subject to the caprice to which their Governments are. It requires a longer time in which to change our Government than it does theirs, and this cooling times tends to conservatism.

But let me repeat, the reason the European farmers are not constantly running to their Governments begging alms every time a disaster overtakes them is not because their Governments distrust them. On the contrary, those Governments have shown their confidence in their farmers by creating free-credit institutions for them which are commensurate with the needs and hazards of agricultural production. Those Governments trust their farmers themselves, whereas it is our policy to create a bureaucracy to dole out favors to our farmers. This was the policy of the Bourbon kings for more than two centuries, but Napoleon, in creating the Bank of France, sowed the seeds for its destruction and gave to France the freest credit institutions in the world.

"Verboten" disgraces every page of our statutes creating credit institutions, and to cap the climax we create bureaus to supervise and regulate them. Is there any wonder why we should have such a horde of lobbyists at every capital? No institution can do business under the restrictions imposed by our legislators, and in consequence those institutions must maintain lobbyists for the removal of such restrictions and to deal with the bureaus created by Congress.

These bureaus or executive departments are constantly appealing to Congress for enlarged powers and increased appropriations, and when Congress denies them their requests they not infrequently inaugurate a propaganda among their constituents. And it is the most natural thing for the interested lobbyist to cooperate with the bureaucrat. This policy, if persisted in, is bound to overthrow the Government by destroying public confidence in its representatives.

Congress displays the same distrust in the bureaucrat it does in the people by placing such restriction on him he can not function. If Congress gives him plenary power and ample funds the lobbyist must continue to exist, for without him the people can not obtain their rights from the bureaucrats. The proper solution is to trust the people with reason, for that would leave both bureaucrat and lobbyist without an occupation.

Mr. Chairman, the enactment into law of the McFadden-Kenyon rural credit and multiple insurance bill would not only be a boon to agricultural production but would greatly strengthen our whole banking and credit systems. No European country relies on ordinary bank deposits for agricultural production as is the case with us. The time required for such credit to reproduce itself is too long to employ ordinary deposits, and where this bad banking method is practiced we find the banks loaded up with frozen assets which make it impossible for them to finance the production and distribution of commerce, the real mission of the deposit banks.

This bill purposes to create two Federal corporations by two separate special charters, namely, a rural credit society and multiple insurance league. Multiple insurance means all kinds of insurance. The principle of multiple insurance is well tried in Europe, where some companies have operated it for more than two centuries.

The rural credit society will comprise 1 central bank, 48 branches, 1 for each State, and any number of community associations, which are denominated communes in the bill. The capital of the central bank will be $25,000,000, which will be furnished by the Government, and a sinking fund is created for its retirement. The capital of the branches will aggregate $2,400,000, which will be furnished by the big life insurance company which accepts the Federal multiple-insurance charter. This branch capital will become a guaranty against the loss of the Government's investment. The stock of the communes will have a par value of $5, and be paid for by farmer members. This commune stock will be another guaranty against the loss of the Government's investment, but will also be liable for the debts of the communes of the several States in which they are situated.

A member's borrowing capacity will be proportioned to the amount of stock he owns in his commune. For example, a member of a commune of the second class may borrow ten times the amount of his commune stock. In communes of this class members are jointly and severally liable for the obligations of the commune. In other words, the members are partners. There is no such liability of members of communes of the third class, but in that class a member can borrow but five times the commune stock owned by him. The second, or unlimited liability class communes, have proven to be the most popular class in Europe. But in order to induce our farmers to adopt that class of commune we must provide a system of sound and economic multiple insurance for them, just as was provided for the European farmers, for with such insurance the poorest tenant in the community can furnish as good security as a basis for credit as the richest farmer.

Before the war the European farmer obtained credit for production at from 3½ to 4½ per cent, such low interest rates being due to two facts; first, the security furnished for such credit; and second, because he had access to the credit markets of the financial and industrial centers for his rural bills of exchange, whereas the American farmer is dependent on the deposit banks of the community. The average membership of the German rural credit societies was 92, each jointly and severally liable for the obligations of the other. Therefore each piece of their paper had an average of 92 indorsers, not considering the multiple insurance. It would be unreasonable to expect a wealthy American farmer to enter an unlimited liability commune with a tenant farmer unless we provide a system of sound and economic multiple insurance for the farm credit system.

Seven farmers may organize a commune, the members of which would elect officers yearly, the officers meeting bimonthly to pass on applications for loans to members. If the application for a loan be approved the borrower draws a rural bill of exchange, which would be mailed to the State branch, and if approved by the branch a check would be sent to the borrower. This system of banking with bills is the oldest system of banking, antedating the deposit and note issue systems by 20 centuries of which we have authentic history. Deposit banking is the most expensive credit system extant, it requiring expensive buildings and fixtures to display wealth, besides numerous officers, tellers, and clerks, whereas a rural bill of exchange drawn on a milk stool in a cow barn is just as good as if drawn on a mahogany desk in a marble bank building, as the investor in such paper looks to the system rather than to the individual maker. The total expense of managing the rural credit societies of Germany in 1912 was $152 per commune, compared to $44,700, the yearly expense of managing the average national bank in this country.

It is also the purpose of the McFadden-Kenyon bill to induce one of the best mutual insurance companies in each particular line of insurance to accept the proposed Federal multiple insurance charter and do its particular line of insurance business thereunder instead of its State charter. The farmers in many States are paying 300 per cent more for fire insurance than the farmers in other States who have their local mutuals. A similar disparity in rates on

cattle insurance exists, though to a lesser degree than exists in fire insurance rates. What is being done in one State may be done in all the States under similar conditions.

But conditions must be equal to hope for like results. Some States where the highest insurance rates prevail have the most obnoxious fire insurance laws, such as the "valued policy law," which enables a man to realize $1,000 on a building worth but $200. The true purpose of insurance is to indemnify the unfortunate against a loss and not to enable him to profit by the transaction. To permit one to profit by a fire encourages incendiarism. Such obnoxious laws would not interfere with the multiple insurance league, because it would obtain its charter from Congress, and therefore would owe allegiance to but one Government, just like the Federal reserve and farm loan systems.

In order to reduce the cost of this insurance we must reduce the expense of management. That is sought under the McFadden-Kenyon bill by making provision for common agents of the two corporations. The secretaries of the communes of the credit society can act as the local agents of the insurance league, and the auditors of the credit society can become the general agents of the insurance league. It has been said, and said truthfully—

"that the average premiums under the plan would be less than $5, while many premiums would be less than $1, and if the credit society has to send 10, 20, or 30 miles for an insurance agent to take that application for insurance, the traveling expense of the agent would exceed the net cost of the insurance in many cases. Under the proposed arrangement the applicant and insurance agent would be together at the time the credit is granted, thus eliminating all traveling expenses."

By eliminating the expense of the soliciting and general agents we would reduce the cost of such insurance by 50 per cent in most cases. It will be the poor farmer who will be required by the credit society to carry insurance as a basis for credit, for the wealthy who have accumulated wealth to pledge for credit will not be required to furnish insurance. It therefore behooves us to reduce the cost of such insurance to a minimum. It is the purpose of this bill to conserve every sound, economic, and efficient insurance company in the country. By acting as the reinsurance agent for the sound county mutuals, the proposed insurance league would greatly extend the usefulness of the latter.

Our farmers in many States have sound fire insurance through their county mutuals, their risks being so widely scattered as to prevent a conflagration loss such as occasionally happens in the cities. The Baltimore and San Francisco fires wiped out all their local fire insurance companies, their unfortunate premium payers losing everything. The city man has no protection against a conflagration loss when he insures in a local fire insurance company which limits its business to that one city.

In the matter of crop or even frost insurance the farmer is in the same position as is the city dweller respecting fire insurance. Sound crop and frost insurance requires an area of operation much larger than any one State.

Therefore, if the farmers of one State procure a charter from their State to do a safe crop or frost insurance business they would be forced to leave their own State in order to furnish safe protection. But the moment they enter such other State their company becomes a foreign company, just as foreign as any British or German company doing business for profit is, and must comply with the same laws as are imposed on them, even though the proposed company enters such other State, not for profit, but to afford themselves and the farmers of such other States absolute security in the production of agriculture for the whole Nation.

Congress can relieve this situation by granting the Federal charter of the McFadden-Kenyon bill for the multiple insurance league. Then it would be just as much at home in one State as in another, just like a national bank, which receives its charter from Congress, the only body authorized to legislate for it. If Congress can grant charters to national banks solely to make money, it can certainly grant such a charter as that proposed in the McFadden-Kenyon bill to aid agricultural production.

Now just a word or two on the subject of multiple insurance. We must have a general multiple insurauce company for that. The company which accepts this charter, of course, would be amenable only to Congress, just exactly like the national bank system, Federal reserve system, and farm loan system; that is, it is chartered and created by Congress. Now, that company would not be required to pay the 2 per cent tax that is imposed on premiums by the States;

but this bill provides that one-half of that tax shall go into the sinking fund, and eventually into the general old-age-pension fund.

The whole history of mutual insurance in this country, as was stated to me a few months ago by Mr. McDonald, the insurance commissioner of Pennsylvania, is to never let a mutual insurance company accumulate a surplus. Therefore they can not take a risk. They can not take the risk that stock companies take. Now, I believe that by putting this saving into the general old-age pension fund we will accumulate a fund that will always protect the multiple insurance league, and that will give us a great multiple insurance league. Suppose, now, that the largest of these companies should accept this charter. That would mean that in 10 years this fund would amount to about $30,000,000. Now, if they will put that sum of money out at compound interest for 50 years, the time in which this old-age pension fund would become available, we would have accumulated here a fund of $200,000,000 from the savings that we would have effected under this bill. That would be 60 years from now, and that would give us a great multiple insurance company. Now, one-fourth of the whole of the old-age pension fund would be available to cure any impairment in this insurance league. If we met with a disaster we could distribute the loss over a number of years. If there were a great disaster you could not meet it all in one year, but must distribute the loss over a period of years, say 10 or 15 years. For instance, take the San Francisco conflagration—a loss will be distributed over a period of from 15 to 25 years. Otherwise you would make insurance so high that no one could buy it.

Now, we can never do that with mutual companies, because there is an insistent demand on the part of the insurance commissions of the States that will force those companies to distribute their accumulated surplus or profits. As an illustration, I will mention one company: The Southern Mutual Co., of Athens, Ga., which was organized in 1848, and if that company has saved the people of Georgia 1 cent it has saved them $25,000,000. I asked the insurance commissioner of the District of Columbia, Hon. Charles F. Nesbit, who was also commissioner of the War Risk Insurance Bureau, some six or seven years ago for the facts in regard to this company, and he obtained a report from that company which shows that for 45 consecutive years that company paid an average annual dividend to its policyholders of 62½ per cent of the premiums received. Now, a few years ago it had accumulated a surplus of about $2,000,000, but here came an insistent demand on the part of the policyholders for a distribution of that surplus. They went into the courts, and the Supreme Court made them distribute $1,000,000 of that surplus. Within the last 10 years they have had two bad conflagrations there, one in Atlanta and one in Augusta, which impaired its surplus. It has not destroyed the company, but it has impaired its usefulness. I am giving you that as an illustration. That is only one case out of many of mutual insurance companies. Now, by putting this money into this old-age pension fund, to be distributed to the policyholders of the life department, it will always be available to cure the impairment of the reserve of any one of the departments.

Now, gentlemen, in April of this year—I think about the 12th of April—the American Farm Bureau Federation's executive committee assembled here for the discussion and consideration of many questions. I attended their first open meeting. They had the governor of the Federal Reserve Board the first day. I procured from their finance committee for Dr. Spillman and myself a right to be heard on this bill. We went before that finance committee, and it was composed of some great big men. Dr. W. H. Walker, of California, was the chairman; Mr. O. E. Bradfute, of Xenia, Ohio, one of the members; and Mr. George A. Mansfield, of Oregon, was another member.

The president of the association sent Mr. E. H. Cunningham, of Iowa, to sit in and listen during the course of the discussion. They discussed the question of cattle insurance and multiple insurance principally. Mr. Bradfute said that he was paying 8 per cent for cattle insurance. I showed him then that through this organization he could easily reduce that cost by one-half by eliminating the expenses of general and special agents. Of course, if you have to depend on sending 10, 20, or 30 miles to get an agent to take the application for a $1 premium, the traveling expense of the agent would exceed the net cost of the insurance.

While Mr. Bradfute and I were discussing that Mr. Cunningham spoke up and said, "Why, I only pay 2½ per cent for my cattle insurance." I said, "Gentlemen, you have absolutely proven the necessity for this measure. Why should Mr. Bradfute, in Ohio, pay 220 per cent more for cattle insurance

than you pay in Iowa?" I was talking to Prof. Myers, of the agricultural college at Cornell this spring, and he was paying 8 per cent for cattle insurance. He also told me that he could not obtain enough insurance in his cooperative fire insurance company to cover the mortgage on his farm and had to obtain the balance through the stock companies. We discussed all this that day for several hours with the farm bureau committee, who went over it thoroughly, and two days later, on the 21st of April, I was at the Harrington Hotel, where the meetings of the executive committee were held, and I stepped in to see what was going on, and as they were discussing some other subject—I think railroads—I went out, and as I was going out of the door some one beckoned to me that Mr. Howard, who was in the chair, was beckoning for me to come to him. I went up there and he said, "Well, I have some bad news for you." He said, "We have indorsed the McFadden-Kenyon bill." I replied, "I think you have done good work." That day I prepared this article, which appeared in the Washington Herald of April 25:

"FARM FEDERATION BUREAU INDORSES RURAL CREDIT BILL—M'FADDEN-KENYON MULTIPLE INSURANCE PLAN ALSO FAVORED.

"The executive committee of the American Farm Bureau Federation, which has been in session here for two weeks, has indorsed the principles of the McFadden-Kenyon rural credits and multiple insurance bill for agricultural production, it was announced yesterday.

"At hearings before the federation's finance committee it was shown that the cattle-insurance rates in some States were 220 per cent in excess of those in another State, and that fire-insurance rates paid by the farmers in some States were 300 per cent greater than in other States, a statement of the federation declared."

Mr. DUNBAR. If a State receives its insurance for one-third of another State, why would not those insurance rates in the first State be available in the other State?

Mr. MILLIKEN. That would be so if the conditions were the same; but in some of those States they have prohibitive laws against those mutual companies going into another State. Most of those cooperative fire insurance companies are purely county affairs and do not operate beyond the county; they do not need any Federal charter, because they are operating locally. Farmers can obtain a fairly uniform fire-loss ratio in a county by having a small amount on each risk and distributing it all over the county, because the conflagration hazard never enters into those county mutuals like it does in a city; but if you take it on the crops—frost and things like that—a conflagration would wipe them out, and you would have no safe insurance for the farmers, because they would be in the same position as city men are on fire insurance. As you know, when it comes to city local fire insurance companies, a conflagration always wipes them out. That was true in the San Francisco and Baltimore fires; all local mutuals were wiped out. [Reading:]

"The McFadden-Kenyon bill provides for the creation of a Federal multiple insurance charter authorizing the issuance of insurance against any and every contingency, a privilege many foreign insurance companies enjoy. It is the purpose to induce one of the mutual life insurance companies to accept such a charter, so as to enable the company to write every class of insurance desired by the farmer.

"Sponsors of the bill claim that if the rural credit society and multiple insurance company had common agents, that the cost of insurance would be materially reduced to farmers.

"MEASURE STRONGLY INDORSED.

"The measure has the strong indorsement of such men as Andrew M. Soule, president of the State College of Agriculture, University of Georgia, who served on the Food Administration during the war; William Frear, vice director and chemist of Pennsylvania State College; and W. I. Myers, professor of agricultural economics and farm management of the New York State College of Agriculture at Cornell University.

"Friends of the bill contend that the average premiums on the insurance under the plan advocated would be less than $5, while many premiums would be less than $1, and if the credit society has to send 10, 20, or 30 miles for an insurance agent to take that application for insurance, the traveling expense

of the agent would exceed the net cost of the insurance in many instances. Under the proposed arrangement, they claim, the applicant and insurance agent would be together at the time the credit is granted, thus eliminating all traveling expenses.

"CONTRAST EUROPEAN SYSTEM.

"It is also claimed," according to a statement from the federation, "that the reason the European farmer obtained credit for agricultural production at from 3½ to 4½ per cent before the war was that he offered better security through his cheap and sound multiple insurance than the average American farmer. That is, the European farmer did not risk all his eggs in one basket, but by insuring against unforeseen contingencies he was not down and out one year and living in clover the next, as is too frequently the case with the American farmer. Another reason why such low interest rates prevailed there was that their farmers had access to the credit markets of the industrial centers, while our farmers operating only on the deposit banking plan have their market limited to their respective communities.

"It is further contended," says the statement, "that the proposed credit-insurance system would do more to strengthen our present banking system than the Federal reserve system. In proof of this contention it is claimed that there has never been a failure of a single rural credit society in France simply because of the security offered for credit and the further fact that their farmers had access to the credit markets of the industrial centers of France."

Quite wide publicity was given to that by a number of the papers. It appeared in the Herald on April 25, and some time last month the distinguished chairman of this committee began an investigation of the American Farm Bureau Federation officials. As you gentlemen know, there is a fight on up there in Pennsylvania. The American Farm Bureau Federation wants to enter the State and organize the State of Pennsylvania, but the grange is fighting them. You are all familiar with that fight, because it has gone on in your hearings. Mr. Howard was on the stand here the other day, and was pretty carefully and closely interrogated by Mr. McFadden, and when Mr. McFadden reintroduced his bill the American Farm Bureau Federation issued this statement, which went out to the press:

FARMERS OBJECT TO M'FADDEN RURAL CREDIT BILL.

WASHINGTON, D. C., *July 25.*

"The rural credit and multiple insurance bill recently reintroduced by L. T. McFadden, chairman of the House Banking and Currency Committee, seeks to use as its vehicle one of the big life insurance companies, and if successful this company, operating under this act, would be given such advantage over other companies as to create a monopoly," stated J. R. Howard, president of the American Farm Bureau Federation, to-day in commenting upon the bill. "There is also great danger in the contemplated national charter for this insurance company.

"The farmers of the United States would not accept such measure unless it was so specifically drawn as to make fullest use of the present existing farm mutual and cooperative local companies. These have proved their worth for many years, and have provided the farmers with the best and cheapest insurance in the world. Even a suggestion of any company which might absorb or displace the local mutual will be strenuously opposed. Moreover, the farmers will insist upon whatever bill they indorse being written in direct United States terminology rather than European phraseology used in the McFadden bill.

"Much has been said of late regarding farm credit loans based upon insurance features and at a conference of the American Farm Bureau Federation held in Washington in April, careful consideration was given to the question of insurance farm credit and the principle was indorsed, but not the McFadden bill."

The McFadden-Kenyon bill was the only bill before the farm bureau committee and the only bill that was considered by them. I think that statement was issued by Mr. Silver. Mr. Silver testifies as an expert on every question that arises in Congress—shipping, railroading, the most intricate problems of finance, civil engineering, the tariff, and everything else you can

imagine he talks about. He has issued a book on finance. There is not a particle of difference between his principles and those of Gen. Jacob Coxey, neither distinguishes between credit and capital. Of course, Mr. Silver has the advantage over Gen. Coxey in that Gen. Coxey had to get off the grass in the Sixty-third Congress, and Mr. Silver is in the saddle and riding pretty swiftly in the Sixty-seventh.

The CHAIRMAN. Have you reached the end of your statement?

Mr. MILLIKEN. Yes, sir.

The CHAIRMAN. As yet I have not quite visualized this proposition. Take a farmer in Kansas who wants credit. What is the modus operandi and what are the steps up to the home office?

Mr. MILLIKEN. Each State must have a branch and the capital of that branch is put up by the insurance company.

Mr. DUNBAR. Not the credit.

Mr. MILLIKEN. No, sir; the capital; the capital of the branch must be invested by the insurance company. You must have 20 communes organized or subscriptions for 20 communes in a State before you can operate. Suppose we illustrate it right out in Maryland. Suppose that seven farmers—and you must have seven farmers to organize a commune or local association—organize in Montgomery County, Md. They meet once every two weeks to pass on the applications of the members for credit. Suppose that a farmer wants to buy a $100 cow; he goes to his association and draws a bill of exchange. If it is a dairy cow he would draw twenty $5 bills payable every month for 20 months. Now, those bills would go to the branch in Baltimore. The officers of the communes would meet every other week. Say they met on last Saturday. Now, on Monday morning the manager of that branch would know just the credit requirements for the whole State of Maryland; he would wire to the central bank located in New York City that the credit requirements for the Maryland communes are $100,000, we will say; the manager of the Baltimore branch would be notified by the central bank as to the discount rate prevailing at that time. Then the Baltimore branch would draw a short-time bill—5, 10, or 20 days—on the central bank, and it would be deposited in one of the commercial banks of Baltimore. This system has to operate with the great commercial banks; it would have its depositary or depositaries in Baltimore. The central bank would be in touch with the money market, would know what the demand was for this paper and approximately how long it would take to sell that $100,000 of Maryland paper.

The Baltimore branch of the credit society must create a credit in one of its depositaries or such depositary as the central bank designates for $100,000 in order to meet the present demands of Maryland farmers. Therefore the Baltimore branch would draw a bill on the central bank for $100,000, payable in 5, 10, 20, or 30 days, which it would likely deposit in one or more of the best commercial banks of Baltimore. So the Baltimore branch would proceed to draw checks on that $100,000 deposit it had created by its bill on the central bank, and one of those checks would be mailed to the Montgomery County farmer to pay for that cow.

These short time—5, 10, 20, and 30 days—bills would be carried by the commercial banks, as they would be used by the credit society in creating checking accounts with the commercial banks. But the longer time bills, those running from six and nine months to two and three years, would go on the open market and be disposed of to the wage earners of our financial and industrial centers, to the insurance companies, and investors generally. Suppose the central bank had requests for $1,000,000 of this paper, then it would wire the Baltimore branch to draw a bill at five days' sight for the $100,000, because as soon as the Baltimore branch sends that paper to the central bank it would be disposed of and the proceeds placed to the credit of the Baltimore commercial banks which had loaned that sum to meet the credit requirements of the Maryland communes the week before.

Now let us see who will be behind that paper. In the first place, you will have the farmer member who draws this bill of exchange on the Montgomery County commune. He is primarily liable for it. He gives a mortgage on that cow, and if he has any other security he will give that. He is required, of course, to insure that cow if he has no other security. No innocent purchaser could acquire title to that cow. The only danger would be if they were paying too much for the cow, or if the cow should die, and he can insure against those contingencies. Now, there will be not less than seven guarantors of that obligation, in addition to the personal security and the indorsement that may be required. Then, in addition to that, you have the stock of all the communes in the State of Maryland liable to meet that obligation. The members are only liable for the obligations of their several communes, but the commune stock is liable for the communes of the whole State. Then, in addition to that, you have the stock of the Maryland branch put up by the insurance company, which is liable for that obligation; and, in addition to that, you have the $25,000,000 furnished by the Government. You would have a gilt edged piece of paper.

Mr. BLACK. Suppose a farmer through his commune applies for a $100 loan to buy a dairy cow; he executes his note, files his mortgage, and takes out an insurance policy. He goes with that paper as security for the note to the rediscount market. Now, is it proposed by this bill to sell that particular note to an individual buyer, or is it the purpose to do as we do under the farm loan system and use that security as the basis for a bond issue and let the buyer buy a bond of $100?

Mr. MILLIKEN. It would be both in many instances. In many instances they would use the note. In others, where the amounts were small——

Mr. BLACK (interposing). That is what I had in mind.

Mr. MILLIKEN. In other instances, where the amounts were small and you did not want to be bothered with it, you would issue debentures against it, or short-time notes.

I want to show you another safeguard. The auditor of the credit society is elected by the insurance company, and he will always hold one of the keys to the security vault. The credit society would have to have an auditor in the Baltimore branch, for instance, and the auditor would hold one of the keys to the security vault. The people in the industrial centers of the country have great confidence in the big life insurance companies, and the wage earners patronize them as they do in no other country. That is one of the safeguards we have. Many of the wage earners do not have safety deposit boxes, and we must take care of their papers for them. We must have safety deposit vaults for that purpose. Of course, we need not have a separate box for each one, but when we have an official of the insurance company holding one of the keys to the vault that will be a safeguard, and that man will leave his security in the safety deposit vault and take a receipt for it. Then, if he loses the receipt he can get the security. These branches must support the market for this paper at any time the owner wants money on it, and it must be controlled by these safeguards. They will use it and support the market.

Mr. BLACK. So that instead of carrying that note around in his pocket and getting it soiled and worn out, he would leave it in the vault?

Mr. MILLIKEN. Yes, sir; and take a receipt for it. He is sending money to the farmers' branch, but the farmers' branch would not carry deposits, but it would control the deposits through its depositaries. Now, the branches of the credit society would not be in the business center where real estate is high, but they could be located in lofts, because this is a business that would be done by correspondence. The credit society would have branches in the financial centers, because it must have access to the great commercial banks of the cities, but the credit society may have its office where real estate is cheap, and where it can have safety deposit vaults for this paper.

The CHAIRMAN. Is it necessary under your scheme to have this company write all kinds of insurance?

Mr. MILLIKEN. We must give it that authority just as the British company enjoys it. The farmers must have multiple insurance. They must have crop insurance, for instance.

The CHAIRMAN. For safety?

Mr. MILLIKEN. For its safety, absolutely. Suppose here is a tenant farmer, and he rents a farm of 30 acres, with 2 acres of it in orchard. Now, he has no assurance of a crop of fruit, and he is paying a money rent. He should by all means carry enough crop insurance on that orchard to pay the rental and spraying charges, $20 or $25 per acre, say. He should carry $20 or $30 per acre on it. If he has no accumulated capital, he would be a mere gambler, if he carried that risk himself. You must have live-stock insurance also.

Defourmentelle, the celebrated French rural credit expert, says that multiple insurance, and particularly cattle insurance, has made for cooperative credit, and that it was the foundation of it. We are just getting to it. As stated in the New York Times, that is as old as the hills in Europe. They do not take the risks that we do here.

Mr. DUNBAR. Does the New York Times favor your bill?

Mr. MILLIKEN. I do not know. They carried some news articles on it, but I do not know if they favor it editorially. I have never consulted any of its editorial staff.

STATEMENT OF MR. W. J. SPILLMAN, WASHINGTON, D. C.

Mr. DUNBAR. Whom do you represent?

Mr. SPILLMAN. Mr. Chairman, there are about 6,500,000 farmers in the United States to-day, and half of those farmers belong to the large farmers' organizations, such as the Farm Bureau, the Grange, the National Board of Farmers' Organizations, the National Farmers' Organization, etc.

Mr. DUNBAR. Do you represent all of them?

Mr. SPILLMAN. No, sir; I represent those who do not belong to those organizations. I am here in behalf of the poor farmer of this country, who needs credit and can not get it now. I am the unauthorized, self-appointed representative of those men. For 7½ years I was at the head of the department of agriculture in the State College of the State of Washington, and for 16¾ years I was the Chief of the Office of Farm Management in the United States Department of Agriculture here in Washington. My principal work there was in developing methods of determining the cost of production on farms. Those methods are now used by the department, and they are being used by the States as well. For the past three years I have been a writer for an agricultural journal. That is my history.

Now, the Department of Agriculture has recently issued some figures showing that the farmers of this country at the present time have obligations, secured and unsecured, of about $5,000,000,000. That represents the credit that the farmers are now using, but it is not the credit that the farmers could use to advantage both to themselves and to the public. We all know that the population is growing in this country considerably faster than production is growing. I have in mind some figures from the recent census showing that during the decade from 1880 to 1890 the population of this country increased somewhere in the neighborhood of 25 per cent, while the area of crops in this country during the same period of time increased about 33 per cent. During the next 10 years, or from 1890 to 1900, the populattion increased about 21 per cent and the crop area increased about 27½ per cent. Now, during the period from 1900 to 1910 the population increased 21 per cent and the crop area increased 10 per cent. Since 1896 there has been a gradual rise in the price of farm products, and that is because the growth of the population is outstripping that of production. We need to stimulate production in this country. I believe, after long study—and I will not say how competent it was, but it was just as competent as I was able to make it—I believe, after a long study of this subject, that we can not do anything that will stimulate agricultural production in this country more greatly than to provide the credit which the farmers need in production.

Now, we are not going to get very far in this great problem of farm credits unless we distinguish the different kinds of credits that the farmers have used and must have. I want to give very briefly a statement of the kinds of credit and then the relation of this McFadden bill to those different kinds of credit. First, we have land credit, the primary object of which is to enable the landless man to acquire land and to enable the man who has land to make permanent improvements upon it. That is the kind of credit extended by the land banks. I think that the land bank act was, perhaps, the most important piece of legislation Congress has ever enacted on behalf of agriculture, but up to the present time the land banks have on hand requests for $300,000,000 and they have money to loan amounting to about one-tenth of that amount. In other words, they are a mere drop in the bucket as compared with the land credits we need.

At the last census 37 per cent of the farmers in this country were tenants and owned no land. The number has increased somewhat since that time. I do not remember the exact figures according to the present census, but it is, I think, 39 per cent.

Mr. MACGREGOR. Here are some figures, and they may contain the figures you want.

Mr. SPILLMAN. These figures show the value in farms, but I wanted the number of farmers. The total number of farm owners in 1920—and the word "owners" includes part owners; that is, a man will own some land and rent additional land—was 3,925,095, and in 1910, 3,948,722. That shows a considerable decrease. The number of tenants in 1910 was 2,354,676, and the number in 1920 was 2,454,746. There is an increase in the number of tenants of 100,070, and there is a decrease in the number of owners of 23,627. If time permitted, I could say a good deal about the causes of those increases and decreases, but I do not want to extend the record too much. I want to get to this McFadden bill, although this committee, as appears from the statement you read the other day, is authorized to deal with the entire subject of farm credits.

Mr. MACGREGOR. Yes; that is what we are after.

Mr. SPILLMAN. Senator Fletcher, of Florida, has introduced a bill amending the farm land bank act that will make available all the land credit that the farmers of this country are entitled to. I hope that bill will be passed; it is highly important that it should be passed, and it will enable every tenant in this country who can get hold of a piece of land at a price which is not above its earning value to secure a farm, and Senator Fletcher's bill will solve the problem of tenant farming in this country. It extends to the land banks the same privilege that other banks have; that is, of issuing notes on its bonds and of using those notes to loan to farmers. That will at once provide all the land credit that is needed, but this land credit should be carefully distinguished from other kinds of credit. There are two purposes for land credits: One is to enable a man to buy land, and the other is to enable him to make permanent improvements on that land.

Now, so much for the first kind of credit. I give these in logical order rather than in the order of their importance. This McFadden bill is the most important of all these, as I will show when I get to that. There is a second type of credit which the farmers should use when they can get it, and that is credit that enables them to market their crops in an orderly manner instead of dumping them on the market at harvest time. Heretofore our credit system in this country has been devised to meet the needs of merchants, commission men, manufacturers, and other people who make a quick turnover. We have a splendid credit system for that class of men. I have frequently heard it stated that we have the best banking system in the world. I do not know, but I do know that we have a splendid credit system, which does meet the demands of those I have mentioned. But the credit system we now have is based on deposit banks, and a deposit bank, whose funds are liable to be demanded at any time, can not safely extend long-time credit on land, nor a year's credit to an organization that is marketing its crops, nor to a man who is buying a dairy cow. He wants credit for a year and maybe for two years. However, as I say, the ordinary deposit bank can not safely extend that kind of credit. This second kind of credit which the farmer needs to enable him to market his crops in an orderly manner—and by that I mean as the market needs those crops—will, I believe, be amply provided, without any governmental action, through these cooperative organizations which are now being formed over the country. They themselves are providing means to get credit for marketing purposes, not for production, not for buying land, and not for making improvements on land, but for selling wheat, selling cotton, and selling hay. They are getting that credit, and I think no action by Congress will be needed to provide all of that kind of credit that is needed.

Now we come to the third kind of credit which, in my opinion, is the most important of all three, the kind of credit a poor man needs who wants to buy a cow and has not the money with which to buy that cow; he needs to buy that cow in order to add to his productive possibilities, and he wants to buy fertilizer in order to increase the yield of his crops, but he has no money. He does get credit, but he pays not only usurious rates for that credit but enormously increased prices in addition. A man wants to buy a twine binder; he has no money, and he buys it on credit; he pays, perhaps, 10 per cent more for that binder than if he paid cash, and he pays 8 per cent interest on the note he gives for it, so that his credit costs him 18 per cent when he buys that binder. The same thing applies to a man who buys fertilizers on credit. Take a man who raises cotton in the South. He will pay 25 per cent more than the cash price for the fertilizers and then pays 10 per cent on that amount for the credit that is extended to him by his landlord or by a merchant. So it costs him 35 per cent to get that credit. Now, under those conditions men do not do the things they need to do in order to increase their production. This bill provides credit for productive purposes, but not for marketing purposes; it will not provide a single dollar for marketing purposes and should not do so, be-

cause it is a wholly different kind of credit and is to be used for a different purpose.

It will not provide credit for a man to buy land; it will not provide credit for a man to build a house, but it will provide credit for a man to plant corn, to extend the acreage of his corn, to plant cotton, to buy fertilizers, and to hire labor. That is the kind of credit contemplated in this bill. We should keep in mind these three types of credit—land credit, which is provided by the farm land banks, and which, with Senator Fletcher's amendment to the bill, will amply provide credit of the kind that is required; marketing credit, which is already being amply provided by cooperative organizations through their financial departments; and productive credit, which heretofore, so far as it has been extended, has been extended by landlords, by merchants, and occasionally by banks, but inadequately, and especially when extended by landlords and merchants at enormous rates, rates which keep the poor man poor.

This bill if enacted into law, and the credit society provided for in it organized and functioning and the insurance company provided for organized and functioning, will give every man on a farm who is entitled to credit all the credit he is entitled to. There are men who are not entitled to credit. This bill would not give them credit and should not do so, but it will give credit to the man who is entitled to credit, the man who has a reputation in his community. He may not have a dollar to his name, but if his neighbors in the commune with him are willing to take a chance on him and guarantee that he will pay back that credit, that man can get all the credit he can use legitimately.

Mr. MACGREGOR. How many farmers are there of that kind?

Mr. SPILLMAN. There are a good many; I have not the census on that, but I am pretty well acquainted with farmers.

Mr. DUNBAR. Let me ask you a question, and whenever I ask you a question I do not want the construction placed on it that might be placed on it, because I am asking for information. In North Dakota there was great failure among the commune organizations formed for the purpose of extending credit. How do you account for that failure?

Mr. SPILLMAN. I did not know there had been any commune organizations there.

Mr. DUNBAR. What is your idea of the organization they had?

Mr. SPILLMAN. Out there?

Mr. DUNBAR. Yes.

Mr. SPILLMAN. I do not know that they have any organization for extending credit except their banks; I have not heard of any, although I am not very familiar with their local arrangements out there.

Mr. DUNBAR. My understanding is that they resolved themselves into what appeared to me to be commune organizations; credit was everywhere extended, the banks have failed, and people have lost an immense amount of money or capital or credit, whatever they put into it.

Mr. SPILLMAN. There are no organizations there at all similar to those contemplated in this bill. It is true that the State has gone into the banking business, and that they have established a number of banks that are virtually branches of the State bank, and they have been loaning money liberally to farmers, too liberally, I presume, because when this crash came it was found that those banks had loaned too much to farmers, the very trouble that this bill is to remedy. As I said a while ago, our banks do not dare loan a great deal on long-time loans to farmers, because if they do they are liable to go broke.

Mr. BLACK. In the study I have made of the North Dakota experiment I find they have undertaken to do this thing through the deposit banks.

Mr. SPILLMAN. Yes; there is where they have fallen down. This bill provides a kind of bank that is not a deposit bank. I think the use of the word "commune" is an unfortunate one, because it has so many meanings that it does not have in that bill; I would be glad to see some other word substituted. It means a local bank; that is what that word "commune" means there, a local bank that does not receive deposits and does not issue bank notes, but it does all the other things that we call a banking business. That bill would make available to any farmer who is entitled to credit and who can get the backing of the members of his local society any idle dollar anywhere in the United States.

Mr. DUNBAR. In North Dakota I understand this credit was extended to too many people who were not entitled to credit.

Mr. SPILLMAN. No; it was extended by institutions which should not have extended it to that class of people.

Mr. DUNBAR. What do you means by that class of people?

Mr. SPILLMAN. Well, I mean that too many deposit banks extended long-time loans to farmers and that it is the thing I criticized at the beginning of my statement—that the deposit banks, whose funds are liable to be demanded at any time, can not safely make 9-month and 12-month loans to farmers or to anybody else, and that is what they did out there.

Mr. DUNBAR. Then the scheme conceived by those in power and authority in the State of North Dakota was impracticable?

Mr. SPILLMAN. Yes, sir; in so far as it permitted deposit banks to make long-time loans to anybody, because that was a violation of banking economics. But this bill here provides a perfectly sound system for extending loans to farmers for the length of time that the farmer needs it. You could lend money under that bill for three years if he needed it for productive purposes.

Mr. DUNBAR. You mean under the McFadden bill?

Mr. SPILLMAN. Yes. You could make loans for three years if they needed it for production purposes, but not for anything else. By that I mean something that will reproduce the money again.

Mr. DUNBAR. As I understand it, you are interested mostly in credits that will enable the landless farmer to become a landowner?

Mr. SPILLMAN. I am deeply interested in that type of credit—the kind of credit that the land banks extend.

Mr. DUNBAR. What credit are you most particularly interested in?

Mr. SPILLMAN. The credit that is provided in this bill that will enable the farmer to increase his production. That is not so much on account of the farmer as on account of the Nation as a whole. The Nation needs that production. This bill here is not a bill to provide something especially for farmers, but this bill is one that looks to the welfare of the entire country.

Mr. BLACK. One of the chief difficulties that the farmer is having is to get the cost of his production, or, at least, that is one of the things that hinder him. He has a too high cost of production, and the cost of his credit is one of those items.

Mr. SPILLMAN. Yes; the cost of credit.

Mr. BLACK. He really has to pay too much for his credit, and that, of course, makes a charge that we should reduce. If we could lessen that charge it would make it easier and would greatly reduce his cost of production.

Mr. SPILLMAN. About one-third of the cost of producing farm products is represented by the interest on the farmer's investment and the cost of his credits. If you could reduce the rate of interest that the farmer has to pay on the credit that he uses you would thereby make a very material reduction in the cost of his production. That is just in line with the suggestion you made.

Mr. DUNBAR. I think you are mistaken in that statement.

Mr. SPILLMAN. That it amounts to one-third of the cost of production?

Mr. DUNBAR. Yes.

Mr. SPILLMAN. I would say that I spent 16 years in investigating the cost of production on farms, and I have published a good many bulletins on that subject. I can cite you plenty of specific instances where one-half of the cost was in the form of interest upon the capital invested and upon the credit used. Very seldom is that cost less than one-fourth.

Mr. DUNBAR. In other words, if a man had a farm worth $50,000, 8 per cent on that $50,000 would be $4,000; and, of course, you figure that $4,000 as being a part of the cost?

Mr. SPILLMAN. Yes; that is interest on the investment.

Mr. DUNBAR. Do you not suppose that a farmer on a $50,000 farm would raise more in a year than $12,000 or $15,000 worth of products?

Mr. SPILLMAN. No; the average $50,000 farm would not do that. Besides, he has not only that investment, but in addition to the $50,000 invested in the farm that same man has six or eight thousand dollars in working capital. He has his horses, plows, binders, etc., which represent a considerable investment, and he must carry a certain amount of cash with which to pay his hands.

Mr. DUNBAR. At what would you figure his investment in implements, live stock, etc., in addition to the $50,000 investment in the farm?

Mr. SPILLMAN. That would depend upon the type of farming and the locality. That is something that varies in different States. I know of States where $2,000 worth of equipment would be sufficient to operate a $50,000 farm, and I

know of other localities, where a different type of farming is pursued, where $20,000 worth of equipment would not be too much. That is something that varies very widely with the locality and the type of farming followed. For instance, in the Palouse country, on the upper Columbia River, where they grow wheat altogether, one man with six horses, a six-horse plow, a six-horse harrow, and a six-horse drill can farm 320 acres of land. That is all the equipment he requires to farm 320 acres of land, and he does not have to hire any labor at all. One man with six horses and that farm equipment will farm, and farm adequately, 320 acres of land. Now, that is very simple farming. That 320 acres of land, even at $100 per acre, would represent an investment of $32,000. but it is really worth $150 per acre right now. That would make an investment of $48,000, and yet that one man, with six horses and only three implements, can operate that farm. Of course, he must have wagons, or probably two or three wagons.

Mr. DUNBAR. All the States provide for the organization of banks, and why could not the special agricultural interests in those different States be provided for, or why could not banks be organized for such interests in the States?

Mr. SPILLMAN. That is what this bill provides for. Do you mean by the State legislatures?

Mr. DUNBAR. Yes.

Mr. SPILLMAN. You could not get State legislation that would be uniform throughout the country. It would take a hundred years to get it. As a matter of fact, you could not get it.

Mr. DUNBAR. I do not want this to appear to be the result of prejudice existing in my mind, but the demand for this legislation seems to have come from some of the Western States and the South, and not from my own State, Indiana, nor from the Eastern States.

Mr. SPILLMAN. The demand for this particular bill here ought to come from men who do not even know that there is such a bill prepared. This bill would serve mostly, not altogether, but mostly, men who do not even know the names of their Congressmen.

They are men who are now paying 25 per cent, 35 per cent, or 45 per cent for the credit that they get, and because of that fact they restrict their production to the merest living. This bill would serve those men, and there is no demand from those men, because they do not know there is a possibility of getting it.

Mr. DUNBAR. Do you not believe that when a man pays 35 per cent or 40 per cent for credit it is due largely to his deficiency in managerial ability?

Mr. SPILLMAN. No, sir; I do not think so. In some individual instances it is due to that, and this bill would not help a man where his difficulty is due to inefficiency, but the proportion of men who could not get credit or who could not get their neighbors to join them in getting credit is a small proportion in any community. The Indiana farmers are fairly prosperous as compared with farmers over the country. I am not speaking about this present time of depression, but if you will take the last 20 years you will find that the Indiana farmers as a whole have been pretty prosperous.

I would like to say a few words now on the relation of insurance to these forms of credit.

The land banks loan on both land and buildings; buildings, being perishable, must be insured before the land banks will recognize them as a basis for credit. This kind of insurance is quite generally available, though not always under satisfactory conditions.

The second type of credit I mentioned, namely, marketing credit, is extended on the basis of nonperishable farm products in bonded warehouses, but only when those products are fully insured. They would not be a safe basis for credit without such insurance. Again, this type of insurance is usually readily available through existing agencies.

While insurance is thus seen to be an essential basis of credit on farm improvements and farm products in warehouses, in the case of the kind of credit provided by the McFadden bill insurance becomes the primary basis of credit. A poor tenant who has no property but who has a reputation among his neighbors for industry and integrity is entitled to credit and actually receives credit, though often at enormous cost. But suppose we had an adequate system of multiple insurance—that is, a system that will insure any legitimate risk—and that this tenant can take out insurance on the crop he is growing to grow, this insurance, together with the backing of his neighbors, makes this

poor tenant a good subject for credit and entitles him to the lowest commercial rates for the money he requires for his year's production. I therefore look upon the multiple-insurance feature of the McFadden bill as an absolute essential for the credit system provided for in this bill. It will enable every farmer who is entitled to productive credit to obtain that credit at the lowest commercial rate. I do not believe that Congress could do any other one thing that would stimulate agricultural production more and relieve the poorer class of farmers of a greater burden than would the passage of the McFadden bill.

(Thereupon, at 1 o'clock p. m., the subcommittee adjourned until to-morrow, August 16, 1921, at 10.30 o'clock a. m.)

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Tuesday, August 16, 1921.

The subcommittee met at 10:30 o'clock, a. m., Hon. Clarence MacGregor (chairman) presiding.

STATEMENT OF MR. R. C. MILLIKEN—Continued.

Mr. MILLIKEN. Mr. Chairman, I would like to show some photographs of the record in the case of Metler *v.* The Fidelity Mutual Life Insurance Co., Volume 26, cases Nos. 159 to 164, pages 1976S to 20612, transcript of records and filed copies of briefs, 1901, of the United States Supreme Court. As the clerk of the Supreme Court has one of his deputies here waiting for the record, which has to be in the custody of the court, I am simply going to show you gentlemen these photographs now that he may take them back.

William A. Hunter obtained a policy of insurance in our company and pretended to drown in the Pecos River at this point right here [indicating]. You can see the contour of the bank from these three men sitting on the bank. The water was only 30 inches deep 28 feet from the bank out there [indicating], and that was the deepest point in the river at that time.

Now, we had two witness who testified that they had seen that man living after his supposed drowning in that river at this point [indicating], on the 3d day of December, 1896. One of them was the county judge of Howard County, Tex., and the other witness was a man by the name of Wallace, who had seen him in Nashville, Tenn., on the 22d day of January, after his supposed drowning. Both of those people identified his photograph. I never saw the man in my life, but eight months after our company had paid that man's sister $40,000, I happened to run across him in a barber shop in Birmingham, Ala., and identified him from that photograph. I carried him back to Texas, and a jury sent him to the penitentiary for five years for swindling the policyholders of this company, because it was a mutual life insurance company, and every dollar of the funds belonged to the policyholders. There was not one dollar's worth of stock in the company. Now, I want to show you the analogy between that case, where a lot of shysters robbed the policyholders of that company, and the effort of Gray Silver, representing the American Farm Bureau Federation, to assassinate the character of Louis T. McFadden.

The CHAIRMAN. What has that got to do with the subject of rural credits?

Mr. MILLIKEN. The only thing it has to do with it is to show the iniquity of our present system of Government institutions, with paternalism in all our credit institutions.

The CHAIRMAN. I think if you would leave the personal proposition out of that it would be much better.

Mr. MILLIKEN. It would be better except for the fact that the American Farm Bureau Federation, or, rather, the Washington representative of the American Farm Bureau Federation, Mr. Gray Silver, has gone out here and issued that statement that I read to you, and I will show you the falsity of that propaganda.

The CHAIRMAN. I do not think we have any concern with that.

Mr. MILLIKEN. The only concern you have with it is because of the politics in it and as it touches our whole political credit system in this country. Now, Mr. Chairman, I have spent 40 years of my business and professional life in credit institutions. I have given them all of my time. I started in when in my

teens as a bookkeeper in a country store. We did a large business, and three-fourths of our business was financed through bills of exchange.

I wish to say, Mr. Chairman, that the statement, or the propaganda statement, issued by Mr. Gray Silver—and he is the author of this statement which I read to you, in which he repudiated the action of his executive committee and in which he repudiated the statement that was given out and was published in the Washington Herald on April 25, which I have read—is unworthy of any man who pretends to represent the American farmer. He has already testified before nearly every congressional committee on every subject, including shipping, railroading, tariff, and finance, and now he comes in here and issues this statement on insurance. As I have said, he credits it to Mr. Howard; but it is Mr. Silver who issues this statement. He refers to Mr. McFadden, the chairman of the House Banking and Currency Committee, but he never says a word about Senator Kenyon, who introduced the same bill in the Senate. This propaganda is issued for no other purpose than to destroy the influence of Mr. McFadden, the chairman of this committee, who is as courageous a man as ever sat in the House of Representatives, and a man who represents a strictly agricultural district. Now, Silver poses also as a literary critic——

The CHAIRMAN. What do we care about that?

Mr. MILLIKEN. Mr. Chairman, if you could see the propaganda that they are sending out——

The CHAIRMAN (interposing). I do not care a rap about their propaganda.

Mr. MILLIKEN. Yes, sir; but it is hurting this cause.

The CHAIRMAN. We are thinking about the farmer and getting credit for him. That is the proposition before us.

Mr. MILLIKEN. That is true, but it is the organization that is involved. Of course, no newspaper would publish Silver's statement were it not for the farmers' organization behind him. Silver is drawing a salary from that organization of $12,000 a year and all expenses for lobbying here in Washington. I have been in this city more than 11 years working for this rural credit measure and have received less than $7,500 from all sources, except the money I have made writing life insurance and with my pen. Lobbying has been the most expensive business I was ever engaged in, while it has been the most remunerative business Silver was ever engaged in.

The CHAIRMAN. That has nothing to do with this subject. We had better drop Mr. Gray Silver. We are not interested in Mr. Gray Silver, although perhaps, interested in the argument of the Farm Bureau Federation.

Mr. MILLIKEN. Of course, the federation, like all other corporations, can do no harm; all the harm comes from those in its employ. The federation is composed of some of the best and most intelligent farmers in the country, who are striving to better their condition. This bill, if enacted into law, would absolutely destroy Silver's occupation, so far as the subject matter of this bill is concerned, because it purposes to give the corporation ample authority to do a banking and credit business commensurate with the hazards and needs of agriculture and creates a "bank parliament" composed of its responsible farmer members to legislate for themselves. These provisions will take the corporation out of politics, just like the same provisions took the Bank of England and Bank of France out of politics. I pointed out to you the other day how these same principles, which Napoleon incorporated in the charter of the Bank of France in 1800, so won the favor of the French people that they forced their Parliament to apply it to all credit institutions.

If you will trust the American farmers, as Europe has trusted their farmers, by giving them amply authority to do this business and then create a bank parliament for them to legislate for themselves, there will be no need for them to engage high-salaried lobbyists to work here in Washington. The existence of the lobby here is due to the restrictive legislation enacted by Congress. You have further manifested your distrust in the people by creating numerous bureaus through which the public must deal. But Congress shows its distrust in the bureaus by placing all manner of restrictions around them, thus making lobbying an absolute essential to the doing of the business of the country.

I now wish to read from the statement Silver issued to the press.

The CHAIRMAN. Is that the statement that you have already read into the record?

Mr. MILLIKEN. Yes. I am just going to quote one paragraph:

"Moreover, the farmers will insist upon whatever bill they indorse being written in direct United States terminology rather than European phraseology used in the McFadden bill."

What word in that bill is not of American phraseology? Not one. The word he has reference to is the one used to designate one of the three separate departments of the credit society—national, State, and local. The bill provides three sets of executive officers and three sets of legislators for those three departments of the credit society. The local department is called a "commune"; the State, a branch; and the national, a central bank or the society. Funk & Wagnall's New Standard Dictionary defines the word "commune" as follows:

"Commune: Noun. The smallest political division of France, corresponding to the township of the United States; a corporate body governed by a maire and municipal council; also a similar division elsewhere, as in Italy and Spain. 2. Any community organized for local interest and self-government; also the people of such a community."

That is the meaning of that word as defined by this American dictionary. Ransack that and every other American dictionary and you can not find a more appropriate word for these local credit unions. "Any community organized for local interest and self-government" precisely fits the meaning of these local associations, which are both organized "for local interest" and are self-governed by their own members in their respective communities. Had the bill used the phrase, "local association" instead of "commune," it would have been a waste of printer's ink and entailed an expense in letter writing for all time to come. We employed the short French word "garage" to mean an automobile stable, and in doing so we not only enriched our language but we have inaugurated a great economy. "Garage" has saved thousands of dollars in sign painting, not to mention the economies brought about in letter writing, and those economies will go on for all time. Economy is the basic principle of rural credit as practiced in Europe, and the bill quite properly sets a good example in the use of words, short words, to designate the several departments and their officials. But the word "garage" was taken from a French dictionary, while the word "commune" when used in this bill had a well-established meaning in an American dictionary.

Enough for Silver's literary criticism. I now take up another of his criticisms. His press statement concludes as follows:

"Much has been said of late regarding farm credit loans, based upon insurance features, and at a conference of the American Farm Bureau Federation held in Washington in April careful consideration was given to the question of insurance farm credit and the principle was indorsed, but not the McFadden bill."

As I have already said, the finance committee of the federation set a date for Dr. W. J. Spillman and me to appear before them and explain the principles of the McFadden-Kenyon rural credit and multiple insurance bill. We spent three hours presenting its merits. During that time we discussed the bill. No time was frittered away on nonessentials, but its fundamental principles were thoroughly discussed, especially the multiple insurance feature. As I have already told you, Mr. Cunningham, of Iowa, the special representative of President Howard, who was sitting in at the hearing, remarked that he was paying 2½ per cent for cattle insurance, while Mr. Bradfute, of Ohio, said he was paying 8 per cent. The federation's own members in attendance at that meeting furnished the evidence for the necessity for this measure.

Dr. W. H. Walker, chairman of the Finance Committee, after the hearing asked me this question:

"Do you think we should indorse the bill?"

To which I replied, "No; you have not read the bill and therefore can not indorse it. All we ask from your committee is an indorsement of its principles." The indorsement of a bill is nothing more nor less than the indorsement of the essential principles contained in it, for no one can draft a perfect bill. The discussion was not on the McFadden bill, but on the McFadden-Kenyon bill, and it was the principles of the latter which were indorsed. The two bills are the same, one introduced in the House and the other in the Senate. Mr. McFadden introduced it in the House nearly a year before Senator Kenyon introduced it in the upper body. If the McFadden bill is bad, the Kenyon bill is equally so. If the real purpose of the propaganda issued by Silver was to defeat what he thought was bad legislation, then he should have condemned both bills. But Senator Kenyon had not conducted an investigation in which he was forced to divulge the salary paid him for lobbying, while Mr. McFadden did conduct such an investigation, and in order to punish the latter this false propaganda was issued by him to the press. The repudiation of the action of

the Finance Committee cut no figure with Silver; neither did he care a barbee about benefiting the American farmer on credit legislation.

In further proof of my statement that Silver cares nothing about this legislation I beg to narrate my personal experience with him. For more than a year I tried to induce him to give me an hour's time in which to explain the general purposes of this bill. I visited his office more than thirty times trying to arrange such an appointment. He would invariably express a desire to know the bill, but would claim that he did not have the time then to go into it. When Congress was in recess it was his custom to go to his home in Martinsburg, W. Va., every Friday and return here the following Monday, and knowing that was his custom I asked him if I would not have a better opportunity to present it to him some Saturday in Martinsburg. He replied that he had much more time there than here to take it up. So I asked him to name the day for me to go there, which he did. I made all arrangements to keep the appointment, but the day before I was to start I phoned his office on some other matter and was told that he would be back here the next day. In other words, had I not accidentally called up his office I would have made a 200-mile trip for nothing. That was the last time I ever sought an interview with him on this bill.

(Thereupon, at 11.15 o'clock a. m., the subcommittee adjourned until Thursday, August 18, 1921, at 10 o'clock a. m.)

SUBCOMMITTEE OF THE COMMITTEE ON BANKING AND CURRENCY,
HOUSE OF REPRESENTATIVES,
Thursday, August 18, 1921.

The subcommittee met at 10 o'clock a. m., Hon. Clarence MacGregor (chairman) presiding.

STATEMENT OF MR. R. C. MILLIKEN—Continued.

Mr. MILLIKEN. Mr. Chairman, when the committee adjourned day before yesterday to enable the members to attend a session of the House I was about to conclude my answer to the Silver propaganda issued to the press. I replied to two of the criticisms of this bill, and shall now reply to the third, namely, that this bill would create an insurance monopoly. This criticism is just as fallacious as the other two he makes.

Congress could not create an insurance monopoly if it tried to, because every State in the Union has full power to create insurance companies and confer every power conferred in this bill on the proposed insurance league, and until the States surrender the power they now enjoy by amending the Federal Constitution and giving to Congress the sole power to create insurance companies it is silly to discuss the subject of Congress creating an insurance monopoly.

In 1754 some thoughtful men of London applied to the British Parliament for a mutual life insurance charter. The wise men of Parliament asked them what security would the policyholders have that the losses would be paid. They replied that premiums saved and properly invested was all the security they needed, but Parliament thought otherwise and denied them the charter. So they organized themselves into a partnership to do a mutual life insurance business, and they made such a success of it that when they again applied to Parliament in 1762 the charter was granted them in the name of the Equitable Life Insurance Society. That was the beginning of mutual life insurance. Therefore so long as the right of partnership remains unimpaired in this country the insurance-monopoly bugaboo will scare no one.

Silver's statement declares that our mutual insurance companies have "provided the farmers with the best and cheapest insurance in the world." The broadness of that statement, coming from a man who has neither practiced nor studied the business is enough to condemn it. An ignorant person reading that statement, the only class it was designed to deceive, would imagine that multiple insurance was invented in this country, when the fact is that a majority of our people never heard of it. The only three classes of mutual insurance which have been successfully operated in this country are life, fire, and live stock insurance.

Mutual life insurance has been more highly developed here than in any country in the world. Our people applied and paid for from five to six times

more of that class of insurance than the balance of the world, every county in the United States being supplied therewith. Each of the six life insurance companies which could qualify under the charter of the McFadden-Kenyon bill has individually more assets than all the American fire insurance companies combined. But their control lies in a small home-office clique who have nothing invested themselves, and it is the purpose of this bill to decentralize such control and place the same in the hands of real owners—the responsible policyholders. Such a laudable effort makes no impression on such a professional lobbyist as Gray Silver. History fails to record an instance in which any real permanent reform ever came from the efforts of the professional lobbyist or bureaucrat. And rural credit reform is not an exception to this rule. It was Raiffeisen who spent 35 years of his life giving it to the German farmers, and Wollemborg spent 40 years of his life, giving it to the Italian farmers. Their lives were a continuous warfare against the lobbyist and bureaucrat. They were derided and ridiculed on every hand, but they created something which will last for ages, because they freed those credit institutions from the curse of bureaucracy, to which extent they lessened the power and influence of the lobbyist and bureaucrat.

The "county mutual" fire insurance companies are more numerous than and other class of mutual insurance in this country, there being nearly fifty times as many of them as there are of the mutual life insurance companies. But those "county mutuals" do not operate in half the counties of the country, whereas the live-stock mutuals are virtually in their infancy and operate in but a few counties. A few hail and frost mutuals have organized, many of which failed because they did not operate in sufficiently large territories to obtain a uniform loss ratio. The only way for a company to furnish a safe weather or crop insurance is to cover the whole United States, and before it attempts that extensively it should have a large surplus fund.

I have already pointed out to you how this bill will provide a surplus of from $100,000,000 to $200,000,000 for the protection of this league.

Even live-stock insurance is unsafe when confined to a single county, because it frequently occurs that a disease among live stock spreads all over a county; in which event the company would fail and the live-stock people who paid the premiums would suffer the loss. The only class of multiple insurance which may be safely conducted by counties is fire insurance on farm buildings which are isolated, and to do that safely the amount insured must be so limited as to place the law of average in operation. All the successful "county mutual" fire companies carry small lines. If there be 1,000 farmers in a county, each owning a building worth $50,000, a company could just as safely write $25,000 on each of them as it could write $500 each on 1,000 farm buildings worth $1,000 each; but the company with the last-mentioned line of risks would be a gambler to attempt to write $25,000 on a single risk.

All over the country where we have safe "county mutual" fire insurance companies we find farmers going to the stock companies to obtain sufficient insurance to cover their mortgage liabilities. I have a letter from a professor of one of the leading agricultural colleges, who owns a farm, in which he says he had to do that very thing; that is, he had to go to a stock company to secure sufficient insurance to protect his mortgage. The amount of his insurance was safe because the "county mutual" carried its limit on it and approved the excess to the stock company.

The purpose of the multiple insurance league would be to cooperate with every sound, economic, and efficiently managed county mutual fire insurance company in the country, the "county mutual" carrying the small risks and the league the excess on the larger risks. The very fact that the "county mutual" was carrying its limit on a risk and recommended the excess to the league would be the best proof that it was a safe risk for the league. The "county mutual" would be in a much better position to inspect the risks than the league, and the better the inspection the lower the loss ratio, and the real mission of every mutual company should be to keep down the loss ratio. If the risk became impaired, the "county mutual" would notify the league of that fact, and it would either reduce the amount it carried or get off the risk altogether. Each company would have a common liability, and therefore a mutual interest to serve.

There is not a word in this bill requiring the farmer members of that credit society to patronize the insurance league, as you gentlemen of this committee know. If the farmers of one county have a sound and economically managed

"county mutual" fire insurance company, does it not stand to reason that they would continue to patronize it in preference to the league? They would be foolish not to do so. If those farmers continued to patronize their "county mutual" there will be nothing but the excess business for the league to do in that county. The multiple insurance league can never become an effective organization without the cooperation of the farmers themselves, and the most foolish thing the league could do would be to attempt to destroy, if it could, any effective organization which the farmers of any community had perfected.

But suppose the league should attempt so foolish a thing as to destroy one of those sound "county mutuals." All those farmers would have to do would be to go to the league's "negative electors," as I pointed out the other day in answer to the question of Mr. Black, who requested me to show how this control compared with that of those great European banks. Section 10 of Article VIII of the insurance league charter of this bill sets forth the method of procedure to disqualify a trustee or director of the league. The very purpose of this bill is to localize the control of the big life insurance company which accepts this charter. The very reason such companies do not to-day enjoy public confidence is because of their centralized control, an evil which this bill will cure. Those small "county mutuals" enjoy the confidence of their patrons, and no one could impose on them simply because their patrons would not tolerate it. But such is not the case with the mutual life insurance companies, and the restoration of that confidence they must enjoy in order to properly serve their patrons is something which every thoughtful person desires. The only way to restore public confidence in them is through their premium payers. That can not be accomplished by mere law. It must be done by human beings who support those institutions with their hard-earned money they pay as premiums. The time has never come, and never will come, when clerks will take the same interest in a business which proprietors do. This bill applies the salient principles of local self-government to the control of the company which accepts this insurance charter, and a mutual life insurance company so controlled can be trusted as much as the local mutual fire insurance companies.

The permanent censors of the league are to be selected by one of the commercial travelers' organizations, there being two in this country, the United Commercial Travelers' Association of America and the American Protective Travelers' Association, which makes the league its official life insurance company. That is something which is new in this country, but it is not new in other countries. About 32 years ago some Scotchmen obtained control of one of the oldest English life insurance companies.

I observed the record of that company, and I saw from the insurance reports that, with one exception, it was doing twice as much ordinary business as any British life insurance company, and at one-third the expense of management of the American companies. I went to Europe to see them and to induce them to come over here, and I found out the secret of its success. The secret of it was to get the United Commercial Travelers of the United Kingdom of Great Britain to make it their official life insurance company, which they did. The commercial traveler is a commercial ambassador, and he comes in daily contact with the commercial and professional men in his business. They do not write insurance; they can not write insurance; and they can not themselves fill the office of censor in this company, but if they make this their official life insurance company, and if the league raises an old-age pension fund by having their employers invest $5 per year in such fund, as every manufacturer and merchant in Great Britain does for the United Commercial Travelers of the Kindgom of Great Britain, they would be interested to a much greater extent in the league than any other single class of its policyholders. This company will be handling both their life insurance and the old-age pension funds. The 300,000 commercial travelers in this country will meet yearly more people than the 11,000,000 farmers, but they are small in number in comparison with the farmers. They will be worth more in keeping graft out of this life insurance company by electing censors from among certified public accountants to inspect this league than any other class. That is the system of inspection which is provided by all the British companies. They have no such thing over there as Government inspection, and they are not cursed with periodical life insurance scandal as we are.

In discussing the system of banking through bills, I was diverted from my remarks and I failed to make one statement, and that was as to the German system. I made the statement that the German system started out as local deposit banks until the Government furnished the capital for the central bank which enabled the system to go into the open market with rural bills of exchange. The German system banks both with deposits and bills of exchange, but the principal portion of its borrowed capital is through bills of exchange. To be exact, I will give you the figures for the societies of Bavaria, which is the second largest German State, and which is a strictly agricultural State. There, of the total borrowed capital, 89.2 per cent was raised on rural bills of exchange and 10.8 per cent from deposits.

I would like now to discuss the seventh section of the bill. That is the section prescribing penal offenses, and it provides that any person or director who knowingly, without first obtaining the written approval of the censors or temporary censors, makes a contract or enacts a by-law for the league through which he is to acquire a direct personal pecuniary interest, subjects himself to the penalty prescribed in that section. That is imposing a penalty for the violation of a principle of law that is well established by the equity courts, as your chairman knows. Equity prohibits the trustee from using or speculating with any of the funds of the cestui que trust, and that law applies to executors, administrators, wards, and attorneys. This is a penalty for the violation of that well-established equitable principle, and if any of those trustees make a profit by any such transaction, the equity courts would force them to disgorge, and the profits would inure to the benefit of the cesqui que trust.

I now take up the question, naming of the commissioners. As you will observe, the bill names two of the commissioners. One of them is Mr. L. D. May, a prominent shorthorn breeder of Bradford County, Pa. Mr. F. W. Harding is the general executive of the American Short Horn Breeders' Association, and he told me Mr. May was one of the highest class shorthorn breeders in the country. Mr. Witt Sears, the other commissioner named in the bill, is a Jersey breeder in Texas. There is no other commissioner named in the bill. They should be named in the bill, because you gentlemen will have more time to ascertain whether those men are the proper ones to be appointed on the commission, and whether they would form a commission that would inspire confidence than would the President of the United States. I can say for Mr. Sears that he organized the cooperative dairies of Hood County, Tex. That was 20 years ago. He started in poor and made his money. He has developed his pure-bred herd of Jersey cattle. Now, the principle thing the commissioners have to do is to organize 20 of those communes in each of 6 States before the rural credit society can operate.

I dare say that if you were to go up into Bradford County, Pa., where Mr. May lives, you would find that Mr. May could organize unlimited liability communes up there and he would not have any trouble in organizing 20 other communes in and around that county. That county borders right on the State of New York, in that fine dairy section. The organization is the principal work to be done, and you must have big live-stock men for that. You ought to have men who have made their own money, and have made it out of farming. You should have men of that type in order to inspire the confidence that is so necessary. I say that because that is going to be the hardest fight we have to make, and we must organize six States before the credit society can be put into operation. Therefore I say that you gentlemen can, and you should by all means make an investigation of those men. Then you can find the third commissioner to put in there. You can go through the private acts of Congress, and you will find that the commissioners are always named in the bill. I cite you the charter of the Potomac Fire Insurance Co., which was organized over 90 years ago. You will find that the commissioners are named in the act. In this matter, we should have men who will inspire confidence in the several counties in order to organize the six States. Those commissioners should be scattered about over the country. There should be one in the Middle West, for instance.

On the system of inspection provided in this bill, I beg to read from the able speech made on this bill in the last Congress by the Hon. Clifford E. Randall, of Wisconsin. I have never read a truer or more severe arraignment of our farcical system of governmental inspection of insurance than is contained in that speech. And let me say first that he, like myself, has devoted considerable of his time to life insurance reform. I wish every American citizen could read that indictment. [Reading:]

"HOW INSURANCE LEAGUE WOULD REFORM THE INSURANCE BUSINESS.

"I will now discuss the insurance reforms which this general insurance charter would effect. Here again I must limit my discussion to a particular feature, namely, the system of self-inspection provided by that Federal general insurance charter. This system of self-inspection by public certified accountants has been thoroughly tried in Europe for many generations, and is far superior to our system of Government inspection of financial institutions. This is the system by which all the banks and insurance companies of England and France are inspected, and with them there does not occur such abuses in the management of trust funds as so frequently occur with us. This system of self-inspection is employed in inspecting the rural credit systems of most European countries. In proof of this let me quote from the excellent address of Wollemborg, the founder of the Italian personal rural credit system, to the rural credit commission we sent abroad in 1913. He said:

"'But when the loans are strictly limited to people residing in the same locality all become vigilant and act as inspectors for their own protection. And you will find that inspection thus exercised by the members themselves is far superior to any Government inspection, since each man has rendered himself personally liable and is acting as inspector in his own behalf. As one of the farmers once said to me, "We are 100, all acting as spies on the others to see that nobody does anything wrong." (S. Doc. 214, 2d sess., 63d Cong., p. 26.)'

"Those were not the words of a rural credit theorist, but the greatest living authority on the subject, the man who actually founded the system in Italy 39 years ago, and has devoted his whole life to giving the Italian farmers the benefits of cooperative credit. We can not afford to ignore the advice of such experienced and practical patriots and thinkers as he has proven himself to be.

"SUPERIORITY OF SELF-INSPECTION OVER GOVERNMENT INSPECTION EXPLAINED.

"At the present time each of the 48 States and the District of Columbia has a separate system of Government inspection of the insurance companies operating in their respective territories. Those systems differ little in principle from each other, and as the legislatures of the States are responsible for the State inspection systems, I shall confine myself to the system provided for the District of Columbia, as Congress alone is responsible for it. There are 289 insurance companies and associations operating in the District of Columbia, with assets aggregating $7,721,083,376, which the insurance department of this district is supposed to report upon as to soundness and to advise the dear people that they are entitled to patronage. The annual appropriatoin for this insurance department is $13,000. If that appropriation were one hundred times what it is, that department could accomplish little more than it is now accomplishing under the system it is operating under, as I shall proceed to show.

"In the first place, the average insurance commissioner is a novice in accountanacy when selected to that office, and his selection is due more to the political pull he exercises on the appointive power than for a knowledge of accountancy. In the second place, there is no way by which an insurance commissioner can be promoted in that particular line of work; that is, when he becomes insurance commissioner he reaches the top of inspection work in his State. The desire to rise burns in the breast of every ambitious man, and that is a laudable desire, and if properly directed should be encouraged. But the average insurance commissioner is no sooner inducted into office than he begins looking about to see how he can advance himself, either in the political field or land some lucrative office with some insurance company he has been employed to inspect. The whole history of Government inspection of insurance demonstrates that that department is a kindergarten for political wirepullers and insurance officials.

"Most of the shameful life insurance scandals in the past have resulted from exposures from the inside fights among officials over a division of the spoils. In 1891 it was Banta, the cashier of the New York Life, who exposed the Beers administration of that company to the New York Times, thus bringing about a legislative investigation. In 1905 it was Hyde and Alexander, high officials of the Equitable, who fell out and washed their dirty linen in public, which brought forth the Armstrong investigating committee, which employed Judge Charles E. Hughes as counsel. The mismanagements disclosed by those two investigations existed for years without a word of complaint from any of the many insurance departments. Some people may labor under the delusion that the laws enacted

as a result of the Armstrong investigation have righted everything. But they should remember that only three years ago the Pittsburgh Life & Trust was exposed and its officials have been sent to the penitentiary for robbing it, and the investigation showed it to have been insolvent for five years before the exposure. Yet all that time it was operating in the District of Columbia and 21 of the most important insurance States of the Union, and those 22 insurance departments were each year issuing to it a clean bill of health or permit to do business in their respective territories. Why, it was only last year that the general agents of one of the big mutual companies went to the home office at the annual election and turned out the old president because his son was too free in the sale of securities to the company. Those general agents did not propose to have their business ruined by giving publicity to that fact. So they took time by the forelock and deposed the old president. These things do not prove that the new laws have worked marvels in the management of insurance companies. But the law is not self-enforceable, and we must devise a plan by which the officials at the home office will observe the law, and that is what the self-inspection system of the Federal general insurance league charter of the McFadden bill is designed to do, as anyone will observe from a careful study of that plan.

"SELF-INSPECTION PLAN OF THE M'FADDEN BILL.

"The McFadden bill provides for the election annually of three public certified accountants by responsible policyholders who have no voice in the management of the league. They must have been public accountants for five years before their election. They hold office for one year each and are ineligible for reelection. Their salaries are $12,000 a year each and traveling expenses while attending to their duties. No two can be residents of the same State. The charter defines their authority and duties in the following words:

"'PAR. 7. (Authority of censors.) The censors shall have power and authority to supervise all elections, call confidence elections, audit the accounts, verify the statements, and inspect the books, papers, and transactions, and properties of the league, become the custodians of one of the keys to the securities vault, and approve each by-law, contract, and agreement in which a director, trustee, or officer making the same is to acquire a direct personal interest.'

"The proper place to inspect a life insurance company is at the home office by an expert possessing the power and authority to visit all board meetings. The scandals in the management of the life insurance companies result from the officers speculating with the securities of their companies.

"The same thing is true respecting the professional expert accountant. Those provisions in the bill which require that a censor shall serve but a year and be ineligible for reelection is to give full scope to that trait in human nature which means so much for the preservation of civilization, for each will know that in four months a professional rival is to come in office, and that it will be to the advancement of that rival's professional reputation for him to expose wrongdoing which others in the same profession failed to expose. It is by the use of professional censors, self-selected, that the British insurance companies are so free from such scandals as disgrace us periodically. It is by the constant criticisms of those institutions by professional experts who are selfishly interested in giving publicity to the errors they discover that they are free from public scandal, and therefore enjoy such freedom in the exercise of the powers given them by the British Parliament. A high official of one of the British insurance companies said to an American in 1905, during the Armstrong investigation:

"'I can not for the life of me understand how you great money-making Americans have the confidence you do in your life insurance management. Your companies are never criticised until some scandal is unearthed, which upsets the business of the whole world. We are criticized every year, as it is impossible for us to go a year without making a mistake; and it is to the selfish interest of the public certified accountants who inspect us to give publicity to our errors, for fear of being exposed themselves the following year by other public certified accountants who inspect us. And we are bound to publish their criticisms, as the advertisement we thus give them is a part of the consideration for which they serve us. Our Government does not spend a penny to inspect us, and in order to inspire the confidence of the public whose business we

seek we must employ these public certified accountants who enjoy high reputations in public estimation.'

"The American in question asked the British insurance official if he would let him see some of the reports of those censors, and the official turned to his secretary and ordered him to get the last 10 annual reports. The American said he read those reports with considerable interest, and while each contained a criticism, but one amounted to anything. That one raised the question of ultra vires—that is, it raised the question of the company's corporate right to do a certain thing it had done. But he said there was not a thing contained in any of those 10 annual reports of the censors which smacks of corruption or wrongdoing. No one can answer the criticism of that British insurance official of our paternalistic insurance-inspection system."

The commissioners should be scattered about over the country. There should be one in the Middle West, for instance.

I wish to say, Mr. Chairman, that Prof. W. I. Myers, of the Agricultural College of New York, at Cornell; Prof. H. C. Filley, the head of the economic department of the agricultural college of the University of Nebraska; and Dr. Andrew M. Soule, president of the Agricultural College of Georgia, have each written that they would like to come here. I understand that there is no appropriation for that purpose. Inasmuch as the feeling is that nothing will be done until Congress convenes again after the recess, I hope in the meantime to be able to get some funds, or some private funds, to pay the expenses of those gentlemen. They can not afford to pay their expenses here. I do not want to encumber your record here with testimony from any men except those who have given their time to the subject and who have spent years in studying the subject. I would not want any except those who have made a special study of this matter, and those are the only witnesses that I would care to introduce on this bill.

The CHAIRMAN. These hearings will be revised, and we will then have them printed. I would suggest that we postpone the examination of Mr. Milliken on the questions that we want to ask until after we have had an opportunity to go through the hearings.

(Thereupon, at 11 o'clock a. m., the subcommittee adjourned, subject to the call of the chairman.)

MSH 22024

END OF
TITLE